Ontario

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Ministry of Treasury, Economics and Intergovernmental Affairs

Hon. John White,
Minister of Treasury, Economics and Intergovernmental Affairs
H. Ian Macdonald, Deputy Minister

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Government of Ontario

Hon. John White
Minister of Treasury, Economics
and Intergovernmental Affairs

H. Ian Macdonald
Deputy Minister

The *Ontario Economic Review* is prepared and edited bimonthly in the Economic Analysis Branch of the Office of Economic Policy, Ministry of Treasury, Economics and Intergovernmental Affairs. The review presents articles of interest as well as current information on economic activity in Ontario. Signed articles reflect the opinions of their authors and do not necessarily represent the views of the Ministry.

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About the Review

Featured in the January/February edition of the *Ontario Economic Review* are extracts of addresses presented by the Minister of Treasury, Economics and Intergovernmental Affairs, the Honourable John White, and by the Deputy Minister, Mr. H. Ian Macdonald.

At the symposium sponsored by the Canadian Export Association in Toronto in February, Mr. Macdonald highlighted some of the major challenges facing Canadian exporters and explained the reasons behind the gradual shift towards more protectionist trade policies in the U.S. and their possible effects on Canada and Ontario.

Mr. White, in his statement to the Meeting of the Ministers of Finance in Ottawa in January, proposed that the federal government substantially reduce personal income tax to provide stimulus to private incomes, economic expansion and employment.

This proposal, the Minister claimed, would have a very real and psychological anti-inflationary effect on the economy. The Minister further recommended that changes in tax-sharing arrangements be determined to allow the provinces to move in to take up some of the tax room made available by the reduction.

A third article deals with the preservation of historic sites and buildings in Ontario. The article, prepared by the Local Planning Policy Branch, is based on a report which is being used as a basis for legislation.

Indicator Charts, Pages 9-11

Fluctuations in aggregate economic activity – commonly used to define business cycles – do not necessarily correspond with fluctuations in the individual activities which make up the aggregate. Instead different indicators of economic activity may vary with respect to both their rates of growth and the timing of their peaks and troughs: some may grow more rapidly than others, some change direction sooner.

Those activities which tend to assume a direction in advance of the aggregate – because they relate to future rather than present production – are referred to as leading indicators, and are widely used to anticipate the short-run future course of the overall economy. The charts on pages 9, 10 and 11 in the *Ontario Economic Review* present a number of these leading indicators, as well as several which are coincidental to or lag behind the aggregate, to provide for the reader an opportunity to make such an evaluation.

While comparisons of the timing and direction of general changes in the various indicators can readily be made, great care must be exercised in making such a comparison of the amplitude of fluctuations. Of the three vertical scales used – 'A' (arithmetic) and 'L1' and 'L2' (logarithmic scales with one and two cycles respectively over a given vertical distance) – only the logarithmic scales can be used to compare relative changes in different indicators. *And this applies only when all series being compared are on the same logarithmic scale.* In such a situation all parallel lines represent equal rates of growth, the exact rate of growth being determined by the slope of the line.

Canada's Approach to The 1973 GATT Round

H. Ian Macdonald, *Deputy Minister*
Ministry of Treasury, Economics and Intergovernmental Affairs

CANADA'S ECONOMIC GROWTH

Throughout the 1960's, as well as in the last two years, Canada's economic growth has been quite satisfactory by international standards. Between 1960 and 1971, our real gross national product grew at an average rate of 5.4 per cent per annum and has shown some acceleration last year. According to recent estimates, the GNP growth in 1972 was about 5.8 per cent in real terms. This growth performance is above the OECD average by almost one percentage point, and although some other countries such as Japan, France and Italy, have been moving ahead faster than Canada, we have certainly not been falling behind.

Our foreign trade performance also provides reason for satisfaction. Canada's share in world exports went up from 4.3 per cent in 1960 to 5.2 per cent in 1970, and in 1972 the value of our merchandise exports was almost $20 billion. The structure of trade has been gradually changing towards a greater emphasis on sales of manufactured end products, whose share in Canada's total exports rose to almost 37 per cent in 1971. On the other hand, these manufactured exports were disproportionately concentrated in automotive products within the U.S.-Canada Auto Pact.

Structural Weaknesses and Deficiencies in Economic Growth

The unacceptably high level of unemployment has become one of Canada's crucial economic, social and political problems. Job creation is now one of the main objectives of federal and provincial policies, and Canadians will be testing the performance of governments against this criterion.

The character of our job creation problem is not unrelated to the second weakness inherent in our Canadian economy: the unsatisfactory levels and growth rates of productivity. While it is generally known that productivity levels in Canadian manufacturing, as expressed by value added per employee, average about 20 to 30 per cent lower than those in the United States, less attention has been paid in public debate to the modest productivity advances made in Canada in the last 10 years. Most of Canada's average annual growth rate of 5.4 per cent in the 1960's – equivalent to 3.1 per cent – has been attributed to growth of employment, whereas the average growth rate of "output per person employed" has been only 2.3 per cent. During the same period, productivity growth in the United States has been higher, and some continental European countries and Japan have recorded a productivity growth of between 4.2 per cent and 8.7 per cent per year.

These developments will have serious implications for Canada because they will not only infringe on our competitiveness, but they will also have a negative impact on advances in Canadian material standards of living.

Some Implications for Tariff Policy

What implications do these internal realities have for Canada's foreign trade policy in general, and its tariff policy in particular? Free trade and low tariffs have generally been considered as powerful means of enforcing productivity at home. Protectionism, on the other hand, has historically been used to preserve or expand domestic job opportunities. It is clear from this situation that we are in a dilemma. If we are too protective, our productivity will suffer. If we move too fast in tariff reductions, our productive resources – manpower in particular – may be under-employed.

Not even the powerful economy of the United States has been able to escape this dilemma, as it has recently been experiencing a convulsive tug-of-war between two opposing camps, one representing the free traders, the other the protectionists. With respect to our relations with the United States, we agree with the prediction made in the statement by the Canadian-American Committee[1] in April 1972 that Canadian and U.S. policies affecting bilateral trade and investment will be more and more argued on the "balance of employment" effects.

Over the last decade, Canada had the highest labour force growth rates among all industrialized countries, and this characteristic is expected to continue throughout the 1970's. The formidable challenge of providing employment for a rapidly growing population hangs over the whole process of policy formulation in Canada. No program aimed at abolishing tariffs or creating freer trade will be socially and politically appealing in this country if it invokes the danger of aggravating our employment situation. The solution has to be found in a pragmatic approach to tariff negotiations, where benefits to the Canadian economy are weighted against possible sacrifices.

CHANGING ATTITUDES TOWARDS THE UNITED STATES

If we ask ourselves what changes occurred in Canadian attitudes towards the United States in the late sixties and early seventies, it seems clear that more and more Canadians have become seriously concerned about the growing American ownership and control of Canadian industries. That concern has found various forms of expression and has finally influenced, in varying degrees, the programs of all major political parties.

In a 1972 address, *"Canada-U.S. Relations: Options for the Future"*[2], the Secretary of State for External Affairs, the Honourable Mitchell Sharp, suggested there are three options available:

1) Canada can seek to maintain more or less its present relationship with the United States with a minimum of policy adjustments;

2) Canada can move deliberately towards closer integration with the United States;

3) Canada can pursue a comprehensive long-term strategy to develop and to strengthen the Canadian economy and other aspects of its national life and in the process to reduce the present Canadian vulnerability.

The third option has been recognized as the one best serving the interests of Canada. The views expressed in Mr. Sharp's report are compatible with Ontario's position on foreign investment which has been described as moderate economic nationalism. The essence of this position lies in its emphasis on positive measures to strengthen Canadian entrepreneurship, ownership and control, and less on restrictive regulations.

The Cost of Sovereignty

There is, of course, a price on sovereignty. Mr. George Ball, the former U.S. Under-Secretary of State, even suggested an explicit price tag. Speaking to a National Industrial Conference Board meeting in New York on January 18, 1973, he said that the 20 to 25 per cent difference in GNP per capita between Canada and the United States is the price Canadians are paying for sovereignty. "Of course", he added, "the decision is theirs".

The concept of a customs or economic union with the United States seems to be a rather distant possibility. This does not, of course, preclude the probability of some sectoral free trade agreements, especially in areas where the danger of production losses to Canada would not be excessive. For Canada, trade expansion with the United States is a vital necessity. We need access to the U.S. market for our raw and fabricated materials and, even more so, for our manufactured products. At the same time, however, it should be remembered that we are the world's largest buyer of American goods. In fact, Canada is much more vulnerable to an unfavourable climate in international trade since exports constitute a much larger share of our GNP than in the United States. We are, therefore, very sensitive to any tendencies in the United States towards protectionism.

Protectionism

Today, there are valid reasons for concern, as there have been since 1967, when the first protectionist tendencies began to appear in the United States. This was the time when a change was occurring in the competitiveness of U.S. goods in world trade and the first deficits began to appear. Problems started to affect U.S. industries producing textiles, shoes, glass and ceramics, pianos, and other goods, and *ad hoc* solutions were found in import restrictions. In the last three to four years, several hundred bills were presented in the U.S. Congress to increase protection from imports; as a result, the formerly hospitable trade climate in the United States cooled off considerably. In 1971, the Hartke-Burke Bill was presented, incorporating the totality of protectionism in trade and foreign investment. Most observers of the U.S. do not give this Bill a chance of being passed, yet they expect that a substantial number of its component parts may reach U.S. legislation in a dispersed way through other bills.

The strength of the protectionist camp is being assessed by U.S. experts in the following way: labour is behind the Hartke-Burke Bill. The U.S. steel industry has been protectionist since the early 1960's ; more recently, the traditionally free trade-oriented American farmers have become resentful of the common agricultural policy of the European Community. If they were to join organized labour, the prospects for a continued liberal trade policy would be rather dim.

The EEC and Japan

The feeling is also spreading in U.S. public opinion that the European Common Market has now gone beyond the goals originally supported by the United States, and that the enlargement of the EEC works against the interests of the United States. If one adds the feeling in the United States that Japan has not reciprocated adequately in liberalizing its imports and investments from abroad, one can see a rather forbidding climate in which U.S. trade moves may be made in the immediate future. The difficulties which the U.S. economy is experiencing in foreign trade and in external financial relations find synthetic expression in the U.S. balance of payments and its balance of trade. There is no need here to recall the whole scenario of the recent devaluation of the U.S. dollar. The important thing for Canadians is to demonstrate effectively that there is no reason for the United States to retaliate in trade against Canada.

CANADA'S TRADE AND PAYMENTS BALANCE WITH THE UNITED STATES

It was only in 1968 that, for the first time in our history, we recorded a trade surplus with the United States – about a quarter of a billion dollars. In the last three years, our annual surpluses in merchandise trade with the United States were at a level of approximately one billion dollars. However, the invisibles account has been recording an ever deepening deficit for Canada. Last year, our imbalance on services with the United States amounted to as much as $1.5 billion. As a result, our current account deficit with the United States over the last five years recorded a total of $2.7 billion.

Can the U.S. Government have any basis whatsoever for insisting on curbing our surplus on merchandise trade while ignoring the fact that, due to high remittances from Canada of royalties, interest and dividends, the United States has been running uninterrupted surpluses on total (visible *plus* invisible) bilateral trade?

There does not appear to be any such [illegible]is and most likely the more thoughtful ele[illegible]ts in the U.S. Administration also realize this. It is most encouraging that Mr. George Schulz, the U.S. Secretary of the Treasury, did not single out Canada for possible U.S. retaliatory trade measures in the recent dollar crisis, when he spoke about adjustments expected to be made by U.S. trading partners as a contribution to solving the crisis.

Let us hope that reason and goodwill will prevail in the U.S. Government, and that serious confrontation with Canada on the trade issue can be avoided. Canadian merchandise surpluses with the United States should be recognized as a natural and inescapable feature of our unique economic relations, characterized by high Canadian transfers to the United States of funds representing the servicing of our indebtedness.

It is to be hoped that the U.S. Administration will find understanding for such a Canadian position, for the long-term interests of the United States and Canada are not only compatible but also convergent. It is in the interest of both countries to preserve and strengthen prosperity on the whole North American c[illegible]nent, as our interests vis-a-vis the rest of [illegible] world make us undoubted allies.

Canada's Current Account Balances with the United States, 1968-72 (millions of $ Canadian)

Year	Balance on Merchandise Trade	Balance on Services	Current Account Balance
1968	+ 249	–1,041	– 792
1969	+ 336	–1,321	– 985
1970	+1,041	–1,306	– 265
1971	+1,126	–1,386	– 260
1972	+1,052	–1,499	– 447
Total 5 years	+3,804	–6,553	–2,749

Source: Statistics Canada

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[1] *Canadian-American Committee,* The New Environment for Canadian-American Relations *(Montreal: Private Planning Association of Canada, 1972).*

[2] *The address was presented by the Hon. Mitchell Sharp at the Annual Meeting of the Certified General Accountants' Association, in Toronto, Oct. 18, 1972.*

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Fiscal Policy Management and Tax Sharing Reform

Hon. John White, *Minister*
Ministry of Treasury, Economics and Intergovernmental Affairs

Addressing the Finance Ministers' Meeting in Ottawa on January 18, Mr. White emphasized two items of "paramount importance" facing the Canadian economy – the immediate need for bold programs to reduce unemployment, increase economic expansion and contain inflation, and the urgent need for redistribution of tax resources to the provinces in order to avoid otherwise inevitable tax increases and cuts in essential public services.

These priority objectives, the Treasurer maintained, could be met by a single fiscal reform on the part of the federal government – a major reduction in personal income tax. The Government of Ontario urged a $1 billion tax cut to provide immediate stimulus to private incomes, economic expansion and employment, and also to open up essential tax room for the provinces over the longer run.

The following extract is based on Ontario's proposals as presented by the Minister in his statement.

FISCAL POLICY MANAGEMENT

The economic record of the past year has been most unsatisfactory. After four years of federal attempts to stabilize the economy, we are worse off than before, with unemployment averaging 6.3 per cent in 1972 and the rate of price inflation reaching 4.8 per cent. In the fourth quarter of 1972, the seasonally adjusted rate of unemployment reached 6.7 per cent. The economy has suffered permanent losses in jobs and incomes, and the goal of full employment is as distant as ever.

In 1969 the federal government implemented deflationary monetary and fiscal policies to stem the rising tide of inflation. Then, the Consumer Price Index had risen by 4.5 per cent over 1968, continuing a rising trend from 1966 when a gain of 3.7 per cent was recorded. The rate of unemployment averaged 4.7 per cent in 1969, which is not a low level in terms of the economy's potential. The impact of restrictive policies was immediate and dramatic. In 1970, the rate of price inflation declined to 3.3 per cent, but the rate of unemployment rose to 5.9 per cent. These trends continued in 1971, and unemployment rose to a ten-year high of 6.4 per cent. Thus, for almost three years running we have been experiencing levels of unemployment in excess of 6.0 per cent. This situation must not be allowed to continue.

The Economic Council of Canada has tabled medium-term goals of 6.0 per cent real growth, 4.5 per cent unemployment by 1975 and an average rate of inflation of 3.0 per cent over the 1972-75 period.[1] These goals are a compromise between what is attainable and the unsatisfactory record of recent years; besides, we are moving away from these goals instead of towards them. The goals are to be applauded, but the economy needs immediate and significant relief if they are to be attained. Ontario believes that full employment can be regained before 1975 if the federal government uses the maximum fiscal leverage at its disposal.

The Federal Performance

During the past four years Ontario has carefully monitored the progress of the economy and examined the economic and fiscal policies of the government sector in Canada. We have found much lacking in the conduct of federal fiscal policy.[2] The record shows that the actual fiscal impact of federal policy has been much less than we have been led to believe in successive budget statements. An examination of the course of federal fiscal policy since 1970 reveals a poorly planned and unco-ordinated variety of measures that have almost totally failed in reaching their objectives.

Federal Policy since 1970

The March, 1970 Budget correctly predicted a deceleration in the rate of growth in output as well as some increase in unemployment. The result was that the rate of unemployment rose rapidly during the year, averaging well over 6.0 per cent in the second half of that year. Cash requirements in the March Budget were a modest $525 million. This figure was revised upwards in the December, 1970 Budget to $1.6 billion as plans for additional spending were introduced in response to the deteriorating situation. The December, 1970 Budget message stated:

> "Of prime importance is the fact that employment is rising in Canada and unemployment on a seasonally adjusted basis appears to be falling."[3]

Tax cuts were ruled out as a policy measure because:

> "A reduction in taxes would be stimulating, that is not to be doubted. But the positive programs which I have described will not only be stimulating but will penetrate more surely to the particular points of the economy where stimulus and relief of economic hardships are most required."[4]

The fiscal impact of the 1970-71 financial program fell far short of intentions. Actual cash requirements were below expectations, reaching $1 billion as compared with the forecast $1.6 billion. The shortfall was considerably greater than indicated as revenues fell by more than $400 million below forecast because of greater than anticipated weakness in the economy. Thus, a combination of delays in recognizing the urgency of the problem and of carrying out policy, once determined, rendered fiscal policy virtually impotent in 1970-71.

The same situation arose in fiscal 1971-72. The June, 1971 federal Budget again took an optimistic view of the unemployment situation:

> "Unemployment is now well below its peak of last fall and the trend will continue downwards."[5]

This optimism dissipated rapidly, with the stronger upsurge in unemployment in the last five months of the year, and the June Budget forecast of total cash requirements of $2.4 billion was raised to $2.6 billion in October. The final cash requirements and fiscal impact figure for the year was, however, about $1 billion lower, even though the June Budget belatedly eliminated the 3 per cent personal and corporate income tax surcharges.

In the 1971 Ontario Budget two months earlier, we had recommended the elimination of these surtaxes. Further, we urged additional tax cuts:

> "We believe that immediate and significant tax cuts are required in two main areas:
>
> - first, personal income taxes should be cut in order to bolster consumer purchasing power;
> - second, corporate taxation should be reduced in order to restore business confidence and stimulate investment and economic growth."[6]

Federal and Ontario Cash Requirements, 1969/70-1973/74

	69/70	70/71	71/72	72/73**	73/74**
Federal cash requirements*					
($ billion)	–0.2	1.2	1.5	1.7	1.0
– per cent of gross budgetary revenue	1.5%	9.2%	10.9%	10.8%	5.6%
Ontario cash requirements					
($ billion)	0.2	0.6	1.0	1.0	1.1
– per cent of gross budgetary revenue	5.4%	10.9%	18.8%	16.3%	17.0%

* *Excluding foreign exchange requirements.*
** *Estimated, Ontario Treasury.*

Source: Department of Finance, Economic Review
Ministry of TE & IA, Ontario Budgets

It was not until the October 14 emergency measures were introduced that the federal government introduced temporary personal and corporate income tax cuts (three per cent and seven per cent respectively). The personal income tax cut was immediately matched by Ontario. The Province had already moved on the corporate side with a five per cent corporate investment tax credit in its April, 1971 Budget.

As previously mentioned, with actual cash requirements once again well below expectations, federal fiscal policy in 1971-72 was far less stimulating than desired. The situation in fiscal 1972-73 is little better. In our own 1972 Budget, in March, we said:

> "It is not axiomatic that the only way out of the unemployment problem is through inflated public spending."[7]

Yet, in terms of measures directed to the short-term stimulation of the economy, the emphasis on increases in spending was continued in the May 8 Budget. The federal Budget message exuded confidence:

> "Summing up, the Canadian economy is expanding firmly and steadily. . .the mood of the economy is one of growing confidence. . .confidence is contagious and I believe it is spreading."[8]

And, on unemployment:

> "I expect that unemployment will fall on the average in the course of this year. . .We do not expect that food prices will rise as fast this year as last. . ."[9]

Following this Budget, the unemployment rate climbed steeply, and it has averaged 6.3 per cent for 1972. Thus, in 1972 we experienced intolerably high levels of unemployment for the third straight year. The Consumer Price Index recorded a gain in 1972 greater than that of 1969 when the battle began, and food prices recorded the largest increase.

We are led to understand that cash requirements for the current fiscal year will be about $2 billion. On the basis of past performance, we would be inclined to disregard this forecast and anticipate a lower figure, not greater than that for 1971-72. Excluding U.I.C. transfers, cash requirements so far have amounted to less than $400 million. In addition, the greater elasticity of the new tax system is generating extremely strong revenue flows. Therefore, apart from the unplanned and enormous U.I.C. drain -- which is admittedly stimulating spending – federal fiscal policy plans appear to have fallen flat again this year.

Ontario's Performance
Since 1970-71, our cash requirements relative to total revenues have far exceeded those of the federal government. But, having maintained an expansionary policy stance for the past three years, the Ontario Government now finds it imperative for reasons of budgetary control and future fiscal policy flexibility to reduce the level of its overall cash deficit. In the upcoming year, notwithstanding severe expenditure restraint, our total cash requirements in the absence of tax increases will be around $1 billion for the third consecutive year. We simply cannot afford stabilization costs of this magnitude. Yet, in 1973-74, Ontario's fiscal effort is projected to exceed by far that of Ottawa if no significant federal initiatives are taken.

The Outlook for 1973-74
For the 1973-74 fiscal year, federal cash requirements are currently forecast to be substantially reduced. This is unwise, and it seems to indicate that the federal battle to create [illegible]s is over, whereas the record of the past t[illegible] years shows that it has hardly begun. Ontario urges the federal government to move with courage and conviction in designing its fiscal plan for 1973-74, and to learn from past experience. The economy needs a substantial personal income tax cut to take up the slack. In return, the Government of Ontario pledges its co-operation in any short-term anti-inflationary measures that might be required. In making this pledge, the Province recognizes the federal government's continuing concern with inflation.

In planning an appropriate fiscal policy stance for 1973, the federal government must consider the fiscal drag associated with the new tax system and the provincial-municipal tax position. As our previous treasurer correctly anticipated during the debate on tax reform, there is mounting evidence that the new tax system is considerably more elastic than the old. Preliminary estimates of the 1972 federal personal income tax assessed indicate an increase of 27 per cent over the comparable federal government personal income tax in 1971. The increase in the whole of 1971 over 1970 was 15 per cent. The greater elasticity of fe[illegible]eral revenues under this new system has obviously neutralized the fiscal stimulation intended in the last federal Budget. It is highly important that this revenue drag be offset by appropriate initiatives in the fiscal policy field, su[illegible] as the suggested cut in personal income t[illegible]

Major Tax Cut Recommended

On January 4, the Government of Canada, in the Speech from the Throne, assigned the highest priority to reducing unemployment, containing inflation and strengthening the economy.[10] The major specific measures to be undertaken are, in fact, a continuation of existing programs: for example, increased funding of the Local Initiatives Program, on-the-job training and the seasonal capital works project. These initiatives represent a continuation of federal attempts to spend the economy out of the crisis. Expenditure programs such as the recent Winter Works Program have a major disadvantage in that they involve a rather long administrative lag and thus are likely to be quite ineffective in the short run.

The Ontario Government maintains that a substantial federal personal income tax cut would have a beneficial impact on the economy. This initiative would stimulate growth in spending, jobs and incomes, while at t[illegible]ame time having a very real and psycho[illegible]al anti-inflationary effect on the economy. It [illegible] long overdue.

The Province urges the federal government to introduce an immediate reduction of $1 billion in its personal income tax. Further, we recommend that this tax cut be permanent, and that a change in tax-sharing arrangements be worked out to allow the provinces to move in to take up some of the tax room made available by the reduction.

Ontario's prime concern is to see a robust economy. We earnestly believe the federal government can well afford to take this initiative to stimulate the private sector. Our estimates indicate that over one-half of the $1 billion tax cut would be recouped in fiscal 1973-74 through its expansionary effect on incomes and jobs. That is, revenues will be higher and U.I.C. benefit payments lower. After two years, the cost will be more than completely recovered. A similar experience was found in the United States in 1962 after a U.S. income tax cut. In fact, if Canada can get down to 4.0 per cent unemployment, the federal government could save a substantial part of the cost of the tax cut [illegible]educed advances to the U.I.C. alone.

[illegible]Ontario is not asking the federal government to sacrifice its own programs or priorities. We are simply asking the central authority to relinquish the unintended revenue gains from tax reform. This abatement in taxes will not impair the ability of the federal government to fulfil its role in stabilizing the economy. Rather, it will put the provinces on a sounder financial footing and allow them to complement federal stabilization actions in the future.

REFORM OF TAX SHARING

In calling for a significant income tax cut by the federal government, Ontario has kept in mind the crucial links between tax reform, tax sharing, and fiscal policy co-ordination.[11] A tax cut at this time would be stimulating, noninflationary and self-financing. It would also establish the basis for fundamental reforms in our system of federal-provincial finance. Specifically, a tax cut would:

- make available immediate tax room for the provinces and reserve additional room to take up when the economy has recovered;
- arrest the growth of the public sector by containing tax levels;
- help to restore greater uniformity in income tax levels within Canada.

Fiscal Imbalance

The basic problem facing our federal system today is that the federal government is overfinanced while the provinces and municipalities are underfinanced. This imbalance was documented in the *Tax Structure Committee Report of 1966* and has been confirmed in subsequent updatings and by other studies.

The evidence proves that the federal government's revenues have consistently exceeded its own-account expenditures. Data for recent fiscal years indicate that the federal government would have been in an even stronger financial position had the economy not performed significantly below potential, necessitating large payouts in respect to unemployment insurance. Our analysis of federal budgetary trends confirms that even with low economic performance, federal revenues will grow at least five per cent faster than expenditures in the years ahead.

In contrast, the expenditures of the provinces and municipalities have long exceeded their revenues, leaving them in a state of chronic deficit in spite of regular tax increases. The provincial-municipal sector is already underfinanced by more than three billion dollars in 1972-73. Without additional tax sharing this position will continue to deteriorate, since expenditure growth continues to outstrip normal growth in revenues.

Income tax reform has served to reinforce the surplus revenue potential of the federal government. The revenue gains resulting from the higher elasticity of the new income tax system are already evident from the revenue flows during 1972.[12] As Ontario showed in the papers it tabled at the Jasper Conference of Finance Ministers, these revenue gains accrue almost entirely to the federal government. Consequently, the provinces have been presented with a *de facto* loss in tax sharing.[13]

The federal government's five-year revenue guarantee in effect acknowledges this loss in tax sharing, but to date no steps have been taken to counter the long run deterioration of the provincial position. At a more general level, the inadequacy of the Canadian revenue sharing system – and its deterioration under tax reform – is demonstrated by eight provinces having been forced to levy personal income taxes in excess of the 30.5 per cent "recognized" for sharing purposes by the federal government.

The surplus taxing power accumulating in the hands of the federal government has enabled it to exert financial leverage on the provinces by initiating new shared-cost programs, many of which are not in accord with provincial priorities. At the same time that Ottawa has been enjoying large fiscal dividends, provincial and municipal revenues have not grown fast enough to finance existing programs, let alone to meet emerging priorities such as urban transportation and environment improvement. Indeed, the situation is so serious that Ontario has been forced to make massive expenditure cutbacks and to defer additional financial aid to our local governments. The current imbalance is most graphically displayed by the fact that the Ontario Government faces a $1.1 billion cash deficit in 1973-74, even after severe expenditure restraint. This exceeds the potential deficit which the federal government faces for Canada as a whole.

Consequences of Fiscal Imbalance

Barring a significant transfer of tax resources from Ottawa to the provinces, Ontario will be forced to raise its own taxes, merely to finance the essential public services for which it is responsible. But it is clear that such unilateral provincial tax increases are not the answer to the problems confronting us. The consequences of such an approach would be ominous.

Firstly, this would entail higher income tax burdens for our citizens, and we believe that tax levels are already very high. Moreover, since many provincial levies have a regressive incidence, increased provincial taxation would tend to negate the equity objective of federal and provincial tax reform programs. Ontario's successful effort to resist income tax increases has been an important anchor against the tide of ever increasing total tax burdens.

Secondly, federally induced provincial tax increases, combined with continued federal program invention, would lead inexorably to an expansion of the public sector. One adverse consequence of this would be increased inflationary pressures. Ontario has consistently taken the position that the total government sector is already large enough, and that it ought to be contained near its present level.[14]

Thirdly, unilateral provincial tax increases would lead to a further balkanization of the national tax structure. In the future, disparity in income tax burdens within Canada is likely to widen as different provinces are driven by financial necessity to regular tax increases.

Finally, independent taxing would increase the likelihood of provinces inadvertently offsetting federal policy. In the past, Ontario has used the limited budgetary flexibility at its disposal to initiate required stabilization action and to complement federal efforts. Now Ontario no longer has the financial resources to undertake complementary tax cuts when they are required to stimulate economic activity. Accordingly, we must point out that without fiscal realignment provinces could be forced into tax actions which counteract expansionary policies undertaken by the federal government.

Ontario's Solution

To avoid such adverse developments, Ontario has presented a plan for an orderly reform of the tax-sharing system. The Province's proposals were first presented at the Jasper Conference and have been reiterated several times since. The Jasper proposal called for a staged reduction in federal income tax by three per cent in 1973, rising to six per cent in 1974, eight per cent in 1975, and 10 per cent in 1976.[15] The standard provincial tax rate would be increased by comparable steps until it reached 40.5 per cent in 1976. This timetable of federal income tax reductions and compensating provincial increases follows essentially the same pattern as the staged abatement increases of the early 1960's. This approach would correct the existing fiscal imbalance without increasing total tax burdens, and would achieve a fairer division of future revenue growth between the two levels of government.

The first step towards this overdue reform of tax sharing was called for by Premier Davis in December in a letter to the Prime Minister of Canada. Mr. Davis urged a continuation of the three per cent federal tax cut and a further four per cent federal tax cut effective immediately, which would be taken up by the provinces to achieve improved tax sharing. This strategy would take into account the need for fiscal stimulation of the economy and would also help to avoid the otherwise inevitable increases in the total tax burden in Canada.

Today, Ontario is calling for a one billion dollar income tax cut, consisting of a continuation of the three per cent cut now in effect, plus a further cut of six per cent to be effective immediately. This simply accelerates the long-term plan Ontario advocated in Jasper in order to provide the major fiscal stimulus which the economy so urgently needs. Our current proposal would provide a five per cent tax cut to taxpayers plus four per cent of income tax room for the provinces to take up in 1973. Then, as the economy improves in 1974 and beyond, provinces could gradually assume the five per cent additional occupancy already reserved. This plan does not imply an impairment of federal ability to finance its own expenditures in the long run. The savings in payments to the U.I.C. fund and the revenue growth generated from increased economic activity will quickly restore the absolute level of federal financing.

The Shared-Cost Programs

From a longer-run point of view, refinancing of the government sector involves reforming the shared-cost programs. Experience both here and abroad indicates that conditional grant programs interfere with provincial prioritie[illegible]e administratively inefficient and are relatively unresponsive to local needs.[16] Ontario has indicated that it would like to opt out of the major shared-cost programs in exchange for an increased share of the personal income tax. In its Jasper papers, Ontario proposed that a reasonable long-run adjustment would consist of a transfer of 21 points of the personal income tax to the provinces. This fiscal equivalence would provide no financial gain or loss to either level of government but would achieve the accountability, flexibility and simplicity so obviously needed in this area of federal-provincial finance.

CONCLUSION

It must be stressed that we have now reached a critical juncture in federal-provincial relations. The time has come for a bold fiscal initiative to stimulate the economy and to rectify the financial imbalance undermining our federal system. The major cut in federal income tax proposed by Ontario is the key for meeting these [illegible]tiple objectives.

The recent course of events makes two things clear. The federal government must move in and use the full weight of its fiscal power to reactivate the economy to full employment. And the provinces must inevitably secure a larger share of total income tax revenues to finance essential local services.

The plan Ontario has advanced would achieve both these essential reforms in a way which serves the interests of all of our citizens. We offer this plan in the spirit of goodwill and assure the federal government of ourco-operation if this proposal is adopted.

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[1] *Economic Council of Canada,* Ninth Annual Review: The Years to 1980 *(Ottawa: 1972).*

[2] *Hon. W. Darcy McKeough,* The Reconstruction of Economic and Fiscal Policy in Canada *(Toronto: Department of Treasury and Economics, 1971).*

[3] *Hon. Edgar J. Benson,* Budget Speech *(Ottawa: December 3, 1970).*

[4] Ibid.

[5] *Hon. Edgar J. Benson,* Budget Speech *(Ottawa: June 18, 1971).*

[6] *Hon. W. Darcy McKeough,* Ontario Budget 1971 *(Toronto: Department of Treasury and Economics, 1971) p. 24.*

[7] *Hon. W. Darcy McKeough,* Ontario Budget 1972 *(Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972) p.20.*

[8] *Hon. John N. Turner,* Budget Speech *(Ottawa: May 8, 1972).*

[9] Ibid.

[10] *Rt. Hon. P. E. Trudeau,* Speech from the Throne, *Commons Debates, Ottawa, January 4, 1973.*

[11] *Hon. Charles MacNaughton,* Ontario Proposals for Tax Reform in Canada *(Toronto: Department of Treasury and Economics, 1970).*

[12] *Ontario's quantitative studies during the tax reform debate predicted this increased elasticity. See Staff Paper, "Tax Reform and Revenue Growth to 1980",* Ontario Tax Studies 4 *(Toronto: Department of Treasury and Economics, 1971)*

[13] *Hon. W. Darcy McKeough,* Supplementary Papers on Federal-Provincial Finance *(Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, March 28, 1972) pp. 10-14.*

[14] *Hon. Charles MacNaughton, "The Public Sector and Economic Policy",* Ontario Budget 1970 *(Toronto: Department of Treasury and Economics, March 1970).*

[15] *Hon. W. Darcy McKeough,* Supplementary Papers on Federal-Provincial Finance.

[16] *Staff Paper, "Federal-Provincial Shared-Cost P[illegible]grams in Ontario",* Ontario Tax Studies 8 *(Tor[illegible]to: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).*

Conservation of Historic Sites and Buildings in Ontario

Local Planning Policy Branch,
Ministry of Treasury, Economics and Intergovernmental Affairs

This article is concerned with the continued loss of what might be called the "architectural heritage" of Ontario. "Architectural heritage" is a general term and is intended to embrace not only individual buildings, or parts of such buildings, but also areas, districts and even complete communities which have aesthetic quality or historic association.

The preservation of sites and buildings, identified as being of value, is complex and includes a number of interrelated elements, any of which may predominate in a given situation. Particular elements of importance may be identified as:

- destruction of individual buildings;
- alteration or addition to the exterior of individual buildings;
- destruction or alteration of the interior of individual buildings;
- destruction or alteration of the immediate environment or setting of individual buildings;
- destruction or alteration of all, or any part of, the environment in an area, district or complete community.

The first three of these elements may be controlled by measures affecting the individual building, while the remaining two involve the identification of an area and consequent establishment of wider measures.

Destruction of Individual Buildings

Destruction of individual buildings may be by deliberate demolition or by gradual deterioration. The first usually takes place either because the building is obsolete or inefficient, and cannot continue to serve a useful purpose, or because the site is economically under-utilized while occupied by the existing building. Occasionally a building may be destroyed simply to be replaced by something more "modern" or in an approved corporate style. Some destruction also occurs as the result of public action in rebuilding roads, providing access to car parks and other "improvements".

Gradual deterioration may also be the result of the deliberate intention of an owner. Many older buildings on the fringe of downtown areas, for instance, are utilized by businesses in search of low cost accommodation. In economically disadvantaged parts of the province, however, slow decay is the reflection of the circumstances of owners who are unable to accept the often considerable costs involved in maintaining older buildings.

Alteration of Individual Buildings

The need for alteration or addition usually arises from some degree of obsolescence in the older building. The need to adapt for a new use frequently requires alteration, a common example being the insertion of shop fronts in former residential buildings. In some instances the owner may be inspired by the usually misguided desire to modernize. Many older buildings are capable of being extensively adapted and altered without harm, if the work is handled with skill and sensitivity. The problem of harmful alteration is mostly, therefore, the result of ignorance and lack of proper advice.

Alteration and damage to interior features is also too often the result of ignorance of their value and an inability to renovate or reconstruct with sufficient skill. It is, however, only rarely that such features would be considered of sufficient importance to warrant preservation.

Environmental Damage

The final two elements of the problem result from both individual and community action on a number of levels. The first level involves major change in the physical structure of an area. This may occur as the result of deliberate action to achieve community planning objectives or because of economic or social pressures. The planning objectives may well be related to problems originating outside the area in question.

Structural change may include alteration of the street pattern, the relationship of building groups or the relationship of buildings in a number of ways. An obvious case is that of a building originally designed to provide the architectural focal point of a street which no longer exists.

The second level involves the introduction of inappropriate uses into (or removal of acceptable uses from) the area. From a purely land-use planning point of view, the newly introduced uses may be acceptable, but at the same time may also be aesthetically incompatible with existing buildings or may damage historic association. Such changes of use may be the result of deliberate policy but are more often brought about by economic and social forces. Many examples exist of residential neighbourhoods now altered to commercial or industrial use, sometimes with individual buildings of value remaining, although in a quite inappropriate setting. Examples of the loss of appropriate uses are provided by the many fine commercial streets in Ontario that are suffering decay because of the relocation of commercial activity to suburban plazas or malls.

At the third level the problem is one of architectural incompatibility arising from individual decisions to rebuild or alter buildings in an inappropriate manner. The buildings altered may not be of any great merit in themselves but by reason of their scale, materials or detailing, may provide a proper setting for others of value. Such individual decisions may also be damaging in an area which is architecturally valuable primarily as a result of consistency in its design elements.

The final level involves interference with any of the many elements which combine to form a satisfactory townscape. Among these may be included trees, street furniture, and treatment of horizontal surfaces.

Background to Provincial Study

To counteract the types of problems described above, the last 10 years have seen increasing interest in and concern about the need for conservation of historic buildings in Ontario. This interest originated primarily at the municipal level when a number of municipalities, notably the City of Kingston, expressed a desire to have local legislation enacted which would enable them to apply architectural control over works carried out to buildings of historic value. This initiative was recognized in 1970 when the City of Kingston Act was passed by the Ontario Legislature, thus enabling the City to pass by-laws designating buildings or structures as being of historic or architectural value. Kingston's success sparked a desire on the part of other municipalities to obtain similar legislation.

While deciding to support Kingston's efforts to deal with its special, but not unique local problem, the Government of Ontario determined that detailed studies should be carried out to identify, on a province-wide basis, the problems of architectural and historic conservation and to recommend appropriate general enabling legislation.

THE STUDY

The findings of the study, undertaken by the former Department of Municipal Affairs, were published as a Final Draft Report in April 1971. The Report was in two parts: the first part analyzed the historical background, the nature and extent of the problem, preservation techniques in other countries (U.S.A. and Europe), and existing legislation and programs elsewhere in Canada; the second part described a proposed program for the Province of Ontario based on conclusions drawn from the material contained in Part I.

The Final Draft Report concluded that the proposed program should:

- provide for the protection of both individual buildings and districts of historic or architectural importance;
- be integrated with the overall planning process;
- be the shared responsibility of provincial and municipal governments and should be designed to encourage private initiative.

Accordingly, the draft report was circulated to selected municipalities, historical societies and architectural conservation groups in Ontario, and to other jurisdictions in order to invite comments and criticisms of the proposals. The majority of replies indicated overwhelming support for the program; the result was a decision to proceed with the preparation of a Final Report. It is this Final Report that forms the basis for the following program and for legislation.

THE PROGRAM

(i) Protection of the Individual Building

It was recommended that the protection of individual buildings should be achieved through a designatory procedure which would require that upon designation, the buildings become subject to various protective measures. This procedure would be the shared responsibility of the provincial and municipal governments: the Minister responsible for the program could designate buildings which could be considered as being of provincial importance, and municipal councils could similarly designate, by by-law, buildings of local importance. It was suggested that the inventories being undertaken by the National Historic Sites Service and the Archives of Ontario be used as the basis for selection of buildings to be designated and expert advice should be sought to determine those buildings which are of provincial importance. Advice from local historical societies and architectural conservation groups should be sought for the selection of local buildings of merit.

The protective measures, if enacted by legislation, would require that an owner of a designated building, if he wishes to carry out alterations, additions, or demolition, make application to the respective authority (Minister or municipal council) for authorization of such works. It was recommended that, in the particular case of an application to demolish, the Minister or the municipal council should be authorized to prohibit the work for a period of not more than 180 days. During this period negotiations should take place with the owner and appropriate agencies should be consulted to determine what steps might be taken to preserve the building. This could take the form of either a direct acquisition or the acquisition of an interest in the building, or the making of conditional grants and loans and payment of compensation. If no agreement can be reached during this period, demolition may proceed.

Appeal procedures have also been recommended whereby an owner may appeal to the Minister against conditions imposed on a conditional approval of works.

(ii) Historic Districts

It was observed during the preparation of the Draft Report that an essential part of any conservation program involves the need to protect the environmental setting of areas, districts and complete communities of outstanding architectural and historic value. Similar needs have been recognized in conservation policies in force in both Europe and the United States and also in the Province of Quebec. The report, therefore, recommended that municipalities be enabled to employ special land-use zoning techniques through the designation of areas as "Historic Conservation Districts". To facilitate this, a municipality must, however, adopt appropriate policies into its official plan and define areas to which such policies might apply. Moreover, a historic district study should be undertaken to provide the basis for these policies – the study to illustrate graphically the manner in which environmental and historic features are to be preserved. It was further recommended that municipalities encourage public involvement in the definition of historic areas by obtaining the views of interested groups and private individuals.

The policies thus established would be enforced by the zoning of affected areas as "Historic Conservation District Zones". Consequently, an owner of any building within such a zone would be required to obtain the authorization of the relevant municipal council for any alterations, additions, demolition or change in use of a building, subject to similar procedures and decisions which might be made in respect to individually designated buildings.

(iii) Financial Assistance

The report proposed that financial assistance should be forthcoming from the public sector in the form of grants and loans, and that the private sector should be encouraged to become involved in the conservation field, primarily through the establishment of "revolving" funds, based upon the successful American pattern. In addition, it was recommended that owners of designated buildings be permitted, subject to appropriate official plan policies, to sell excess development rights as a means of realizing some financial return on the development potential of a site occupied by an historic b[illegible]ing, thereby reducing the threat of redevelopment of such a site.

(iv) Administrative Functions

As mentioned previously, it was proposed that the program should be approached as the shared responsibility of the provincial and municipal governments in Ontario.

At the provincial level, it is presently envisioned that the necessary legislation will be enacted in the form of a new act and amendments to the Planning Act will be required. The responsibility of administering the procedural aspects will therefore be closely allied both to other historical cultural activities and to planning matters. The latter are presently functions of the Ministry of Treasury, Economics and Intergovernmental Affairs, while the former are generally centralized within the Ministry of Colleges and Universities.

An example of an associated organization exists in The Ontario Heritage Foundation whose success in the preservation field has been outstanding to date. It is recommended that the Foundation should also be closely involved [illegible] the program.

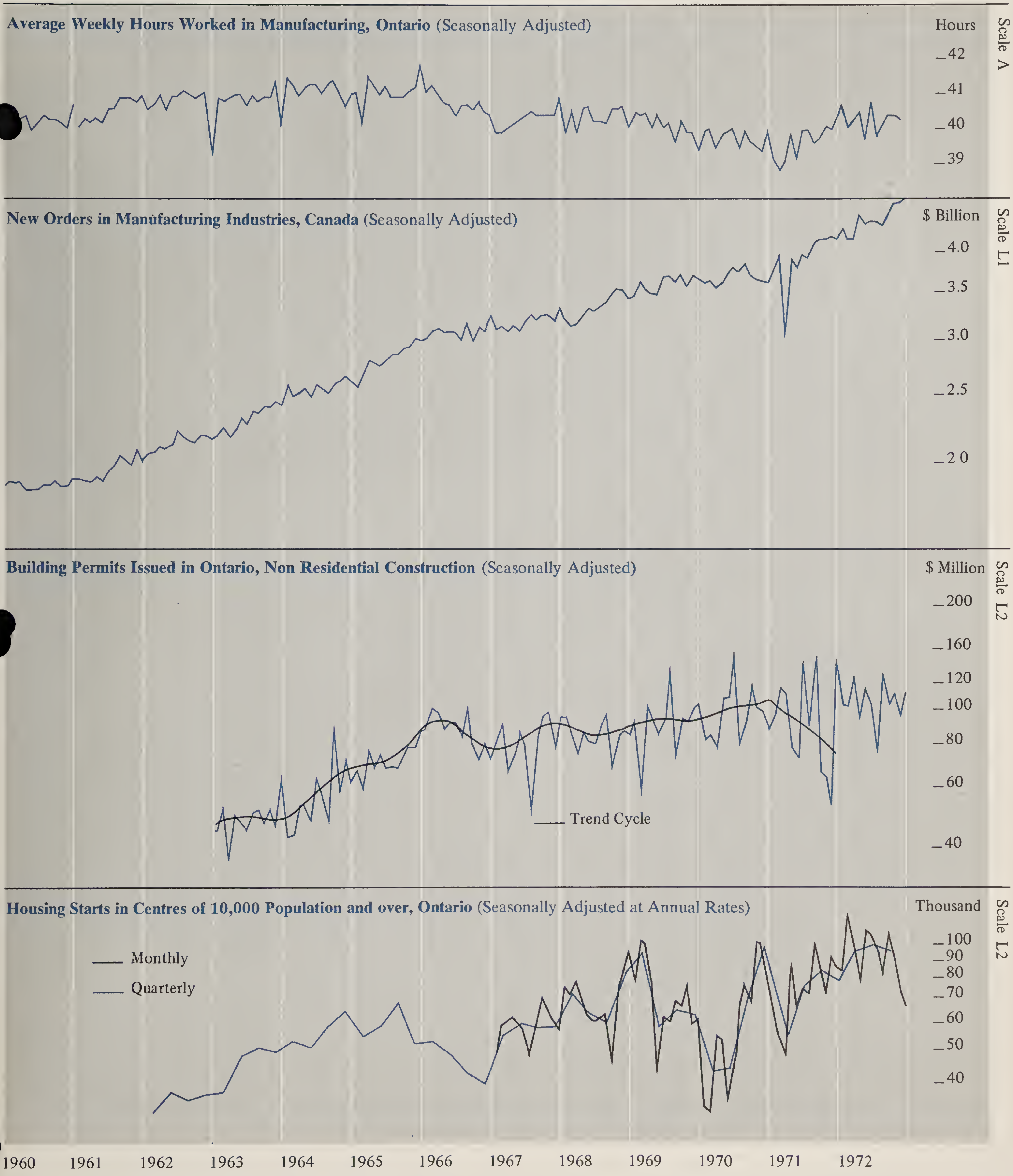
All of the above might be assisted in their tasks, particularly in regard to the selection of provincially important buildings, by a "Provincial Historic Advisory Board" to be comprised of experts known in Ontario for their contribution to historic and architectural conservation.

The Historical and Museums Branch of the Ministry of Colleges and Universities would continue with responsibility for plaquing, publications and recording of buildings and the ongoing preparation of building inventories.

At the municipal level, administrative functions should rest with local municipalities, or regional governments where appropriate. They could, in turn, be assisted by provincial authorities and/or a local "Historic Conservation Advisory Committee". Such a committee might legitimately comprise a cross-section of elected council members and co-opted citizen members, each with a demonstrated interest in and knowledge of, the history and architecture of the municipality. The committee could thus allow for active citizen involvement in the conservation field while at the same time allowing certain council members exposure to the very real problems of the preservation of our invaluable historic and architectural heritage.

Selected Economic Indicators

Leading Indicators



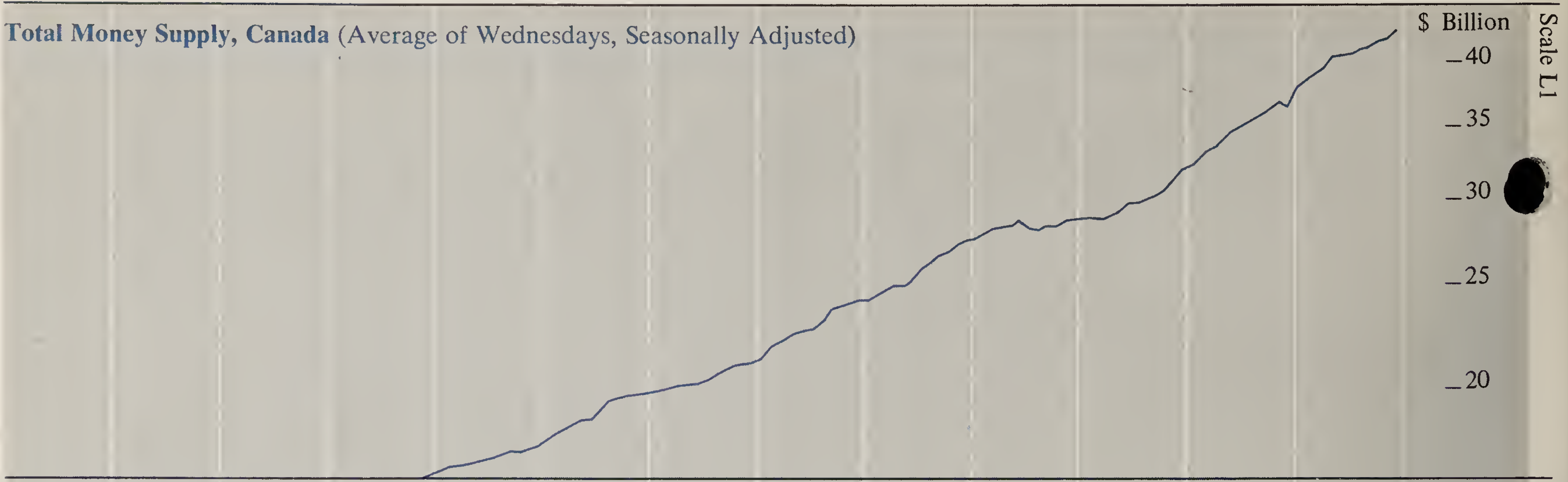
Average Weekly Hours Worked in Manufacturing, Ontario (Seasonally Adjusted)

New Orders in Manufacturing Industries, Canada (Seasonally Adjusted)

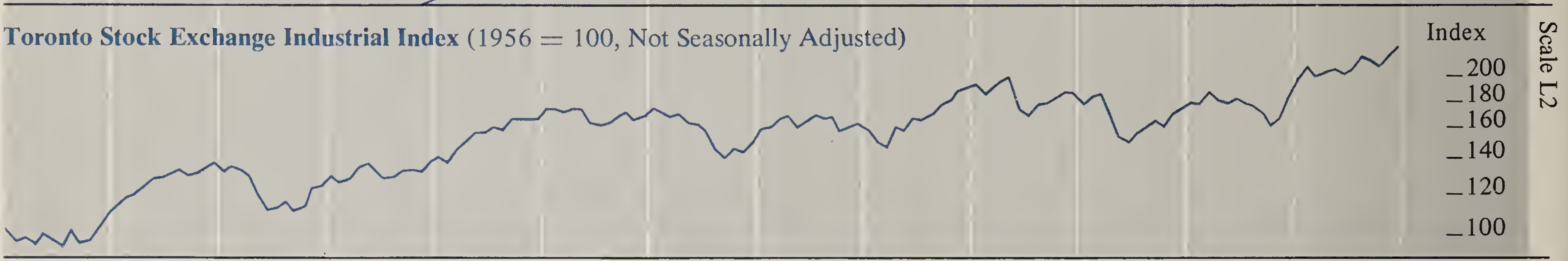
Building Permits Issued in Ontario, Non Residential Construction (Seasonally Adjusted)

Housing Starts in Centres of 10,000 Population and over, Ontario (Seasonally Adjusted at Annual Rates)

Leading Indicators

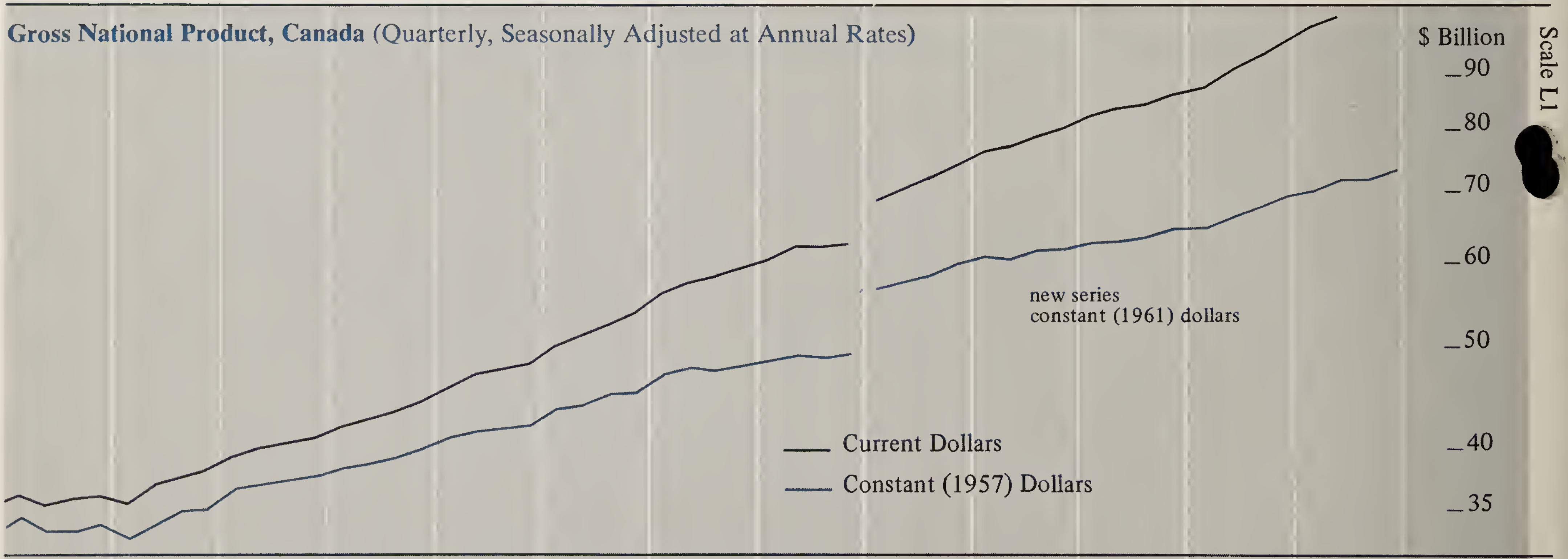


Total Money Supply, Canada (Average of Wednesdays, Seasonally Adjusted)

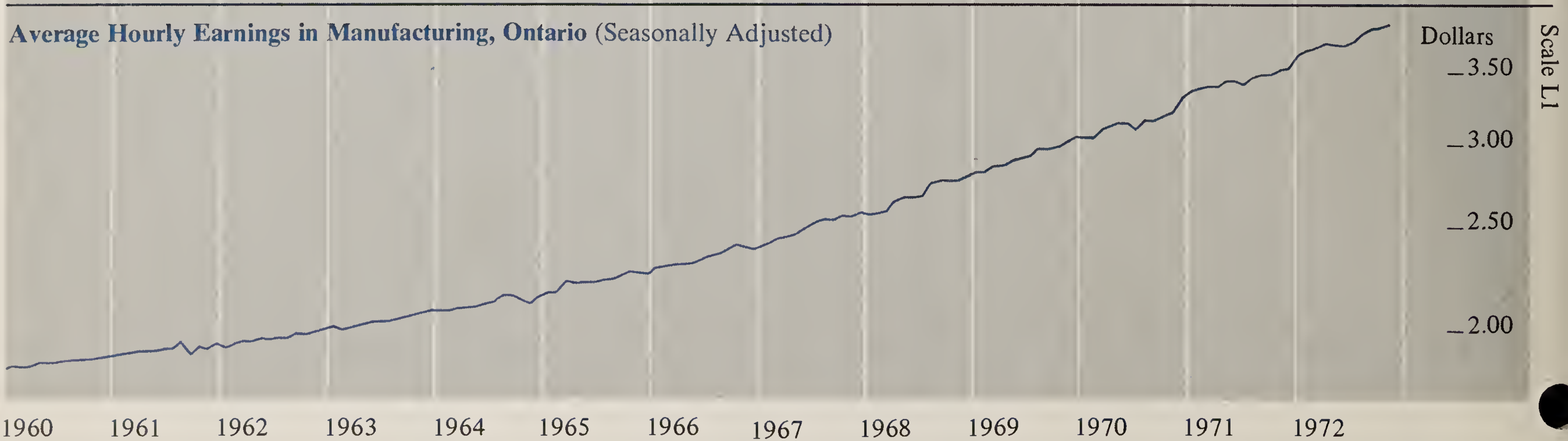


Toronto Stock Exchange Industrial Index (1956 = 100, Not Seasonally Adjusted)

Coincidental and Lagging Indicators

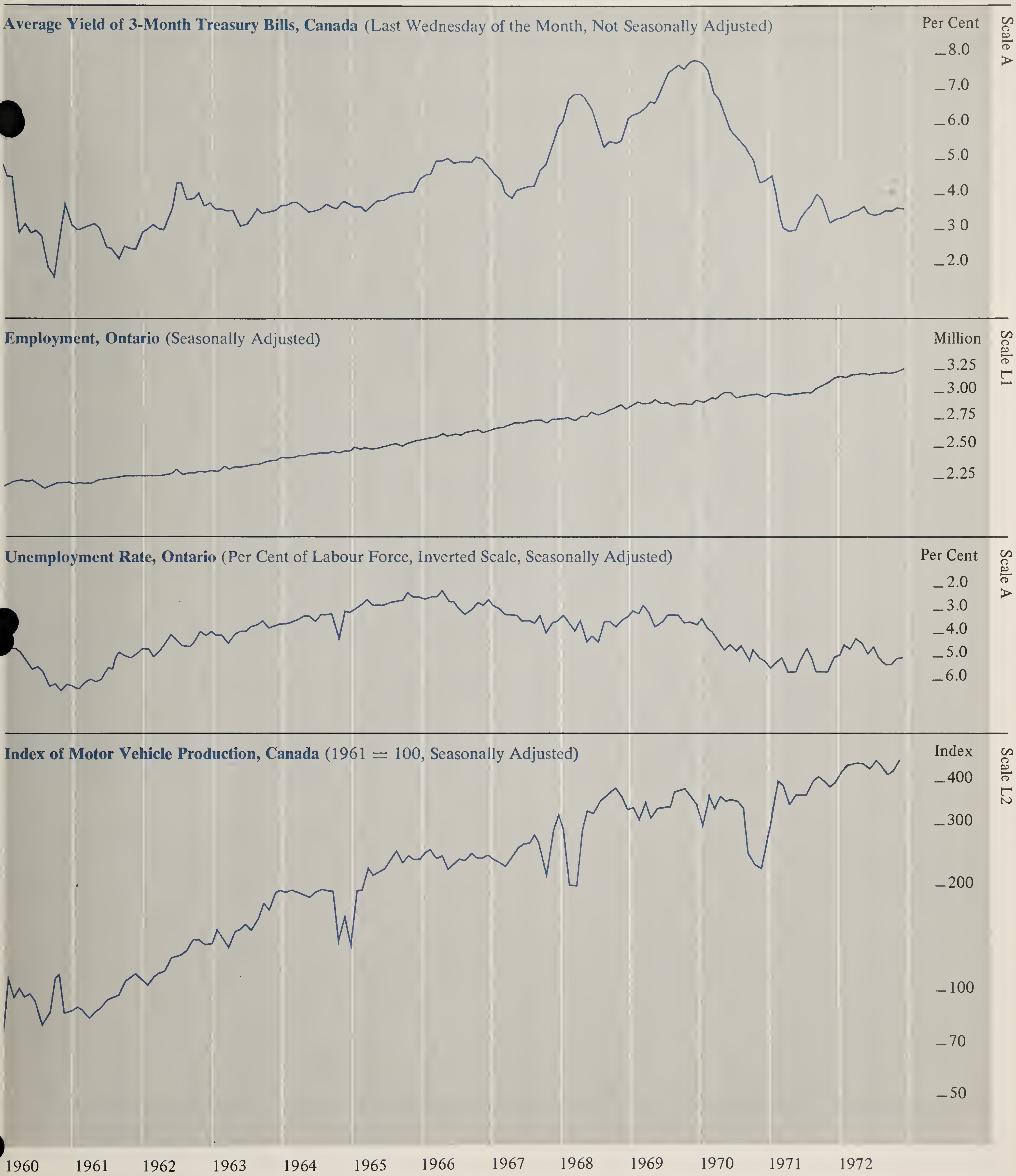


Gross National Product, Canada (Quarterly, Seasonally Adjusted at Annual Rates)



Average Hourly Earnings in Manufacturing, Ontario (Seasonally Adjusted)

Coincidental and Lagging Indicators



Average Yield of 3-Month Treasury Bills, Canada (Last Wednesday of the Month, Not Seasonally Adjusted)

Employment, Ontario (Seasonally Adjusted)

Unemployment Rate, Ontario (Per Cent of Labour Force, Inverted Scale, Seasonally Adjusted)

Index of Motor Vehicle Production, Canada (1961 = 100, Seasonally Adjusted)

Economic Indicators

Seasonally Adjusted

		1971		1972											
		Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Leading Indicators															
Average Weekly Hours Worked in Manufacturing	Number	40.0	40.4	40.7	40.1	40.2	40.5	39.7	40.8	39.8	40.1	40.4	40.4	40.2	40.5
New Orders in Manufacturing Industries[c]	$ Million	4,267.0	4,216.1	4,368.1	4,213.4	4,234.7	4,563.0	4,439.8	4,488.0	4,459.5	4,402.2	4,561.6	4,745.0	4,760.4	4,836.0
Building Permits Issued in Ontario, Non-Residential Construction	$ Million	53.1	139.6	103.4	102.5	123.2	95.1	114.7	104.7	76.7	128.2	104.7	110.4	96.7	112.4
Urban Housing Starts (Annual Rate)	Number	98,500	77,500	82,900	123,100	94,000	78,700	108,600	106,700	97,000	82,700	108,500	91,600	71,800	66,500
Money Supply[c]	$ Million	37,016	37,353	38,338	38,656	39,099	39,655	40,507	40,649	40,862	41,280	41,515	42,028	42,287	42,839
T.S.E. Industrial Index[u]	1956 = 100	166.2	181.6	197.3	203.6	197.7	200.0	204.0	199.7	204.8	214.1	210.8	203.2	215.4	221.6
Business Failures[u]	Number	94	61	44	61	135	78	153	94	84	101	67	100	102	82
Business Failures – Liabilities[u]	$ Million	5.7	3.7	3.4	4.7	8.7	9.0	7.7	4.3	3.9	7.4	4.5	4.1	13.8	3.8
Coincidental and Lagging Indicators															
Gross National Product[c] (Annual Rate)	$ Million		96,596			98,992			101,964			103,728			107,056
Average Hourly Earnings in Manufacturing	Dollars	3.52	3.53	3.62	3.66	3.66	3.70	3.69	3.68	3.73	3.79	3.82	3.84	3.86	3.87
3-Month Treasury Bill Rate[c,u]	Per Cent	3.24	3.21	3.36	3.45	3.57	3.64	3.73	3.50	3.46	3.50	3.62	3.57	3.68	3.65
Cheques Cashed in Clearing Centres[1]	$ Million	8,248	8,098	7,627	7,940	7,508	8,010	7,409	8,144	8,437	8,751	8,470	8,936	8,449	8,768
Retail Trade	$ Million	1,036	1,013	1,038	1,040	1,042	1,072	1,083	1,081	1,093	1,088	1,098	1,128	1,115	1,107
Labour Force	000's	3,314	3,318	3,349	3,338	3,366	3,352	3,371	3,370	3,377	3,395	3,408	3,408	3,416	3,441
Employed	000's	3,135	3.153	3,188	3,185	3,208	3,209	3,220	3,207	3,219	3,224	3,227	3,227	3.243	3,269
Unemployed	000's	179	165	161	153	158	143	151	163	158	171	181	181	173	172
Unemployed as % of Labour Force	Per Cent	5.4	5.0	4.8	4.6	4.7	4.3	4.5	4.8	4.7	5.0	5.3	5.3	5.1	5.0
Wages and Salaries	$ Million	1,809	1,827	1,853	1,857	1,875	1,894	1,893	1,922	1,923	1,933	1,952	1,973	1,997	2,027
Index of Industrial Employment	1961 = 100	131.9	131.5	132.2	132.3	133.2	133.9	134.8	134.8	134.4	133.5	134.2	136.2	135.7	134.6
Index of Industrial Production[c]	1961 = 100	187.5	187.8	189.4	189.5	191.1	195.1	192.8	194.0	194.0	192.6	195.4	200.4	202.3	203.3
Total Manufacturing[c]		184.0	184.3	186.1	185.0	187.1	191.0	188.3	190.9	191.6	189.8	191.9	194.3	196.0	198.5
Non-Durables[c]		163.4	163.7	164.5	162.9	165.4	169.4	167.5	172.0	170.4	169.1	171.4	172.7	173.1	175.9
Durables[c]		210.1	210.3	213.3	213.1	214.6	218.4	214.6	214.8	218.5	216.1	217.9	221.5	225.0	227.1
Mining[c]		190.2	190.6	192.2	194.9	193.3	200.8	197.2	189.3	185.3	185.0	192.8	210.9	212.7	206.7
Electric Power and Gas Utilities[c]		213.3	213.8	213.5	218.8	221.9	221.3	224.3	228.2	228.3	227.9	229.2	236.4	239.6	239.2
Primary Energy Demand (Annual Rate)	BKWH	70.26	68.83	70.19	72.37	72.63	72.07	71.74	72.90	73.58	73.16	74.64	76.15	76.56	75.43
Exports (including re-exports)[c]	$ Million	1,507	1,508	1,485	1,580	1,551	1,559	1,675	1,750	1,486	1,600	1,569	1,859	1,982	1,826
Imports[c]	$ Million	1,387	1,362	1,496	1,416	1.517	1.525	1.538	1,514	1,532	1,603	1,531	1,667	1,671	1,707
Unclassified Indicators															
Foreign Exchange Reserves[c,u]	U.S. $ Million	4,573	4,852	4,838	4,841	4,903	5,005	5,210	5,376	5,349	5,358	5,370	5,372	5,191	5,189
Industrial Materials Price Index[c,u]	1935-39 = 100	267.9	269.8	277.1	282.8	291.7	290.6	294.5	295.7	294.9	300.9	303.1	317.4	319.4	325.4
Consumer Price Index[c,u]	1961 = 100	135.4	136.3	136.7	137.3	137.4	138.2	138.3	138.5	140.2	141.3	141.8	142.0	142.3	143.3
Toronto[u]		130.5	131.6	132.0	132.8	132.6	133.4	133.4	133.9	135.7	135.9	136.6	136.2	136.6	137.7
Ottawa[u]		132.3	133.0	133.6	133.9	134.1	135.1	134.7	134.9	136.1	137.4	137.9	137.6	138.2	139.1
Thunder Bay[u]	1969 = 100	104.9	105.4	105.8	106.3	106.3	107.0	107.1	106.6	107.2	108.4	108.9	108.5	109.1	109.5
Purchasing Power of 1961 Consumer Dollar[c,u]		0.74	0.73	0.73	0.73	0.73	0.72	0.72	0.72	0.71	0.71	0.71	0.70	0.70	0.70

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[c] *Statistics for Canada.*
[u] *Not seasonally adj[illegible]d.*
[1] *Ontario less Toronto.*

Ontario

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Ontario

Ontario Economic Review

March/April 1973
Volume 11, Number 2

Ministry of Treasury, Economics and Intergovernmental Affairs

Hon. John White,
Minister of Treasury, Economics and Intergovernmental Affairs
H. Ian Macdonald, Deputy Minister

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Volume 11, Number 2

The Ontario Economy 1

Payroll Taxation and Inflation 2
Ronald Holloway, *Economist*
Taxation and Fiscal Policy Branch

Government Reorganization and Treasury, Economics and Intergovernmental Affairs 3
Ministry of Treasury, Economics
and Intergovernmental Affairs

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Government of Ontario

Hon. John White
Minister of Treasury, Economics
and Intergovernmental Affairs

H. Ian Macdonald
Deputy Minister

The *Ontario Economic Review* is prepared and edited bimonthly in the Economic Analysis Branch of the Office of Economic Policy, Ministry of Treasury, Economics and Intergovernmental Affairs. The review presents articles of interest as well as current information on economic activity in Ontario. Signed articles reflect the opinions of their authors and do not necessarily represent the views of the Ministry.

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Mar/Apr 1973
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Copies of the 1973 Ontario Budget are available, free of charge, from the Ontario Government Bookstore, 880 Bay Street, Toronto (965-2054).

About the Review

April 1 marked the first anniversary of the formation of the Ministry of Treasury, Economics and Intergovernmental Affairs.

During the first year of its life, the Ministry has undergone important structural changes. The announcement on March 1 by the Honourable John White on the completion of the second phase of the re-organization of the Ministry was a particularly significant milestone in its history.

The new Ministry was formed as the result of the restructuring of the Government of Ontario, underway since 1971. The feature article of the March/April edition of the *Ontario Economic Review* describes the structure, role and programs of the Ministry in the new government organization.

The short article by Mr. R.G. Holloway, of the Taxation and Fiscal Policy Branch, Ministry of Treasury, Economics and Intergovernmental Affairs, examines some of the uses of payroll taxation as a possible means of curbing inflation.

Indicator Charts, Pages 10-12

Fluctuations in aggregate economic activity – commonly used to define business cycles – do not necessarily correspond with fluctuations in the individual activities which make up the aggregate. Instead different indicators of economic activity may vary with respect to both their rates of growth and the timing of their peaks and troughs: some may grow more rapidly than others, some change direction sooner.

Those activities which tend to assume a direction in advance of the aggregate – because they relate to future rather than present production – are referred to as leading indicators, and are widely used to anticipate the short-run future course of the overall economy. The charts on pages 10, 11 and 12 in the *Ontario Economic Review* present a number of these leading indicators, as well as several which are coincidental to or lag behind the aggregate, to provide for the reader an opportunity to make such an evaluation.

While comparisons of the timing and direction of general changes in the various indicators can readily be made, great care must be exercised in making such a comparison of the amplitude of fluctuations. Of the three vertical scales used – 'A' (arithmetic) and 'L1' and 'L2' (logarithmic scales with one and two cycles respectively over a given vertical distance) – only the logarithmic scales can be used to compare relative changes in different indicators. *And this applies only when all series being compared are on the same logarithmic scale.* In such a situation all parallel lines represent equal rates of growth, the exact rate of growth being determined by the slope of the line.

The Ontario Economy

CANADA AND ONTARIO —1972 IN PERSPECTIVE

The upturn in economic activity in Ontario and Canada, underway since 1971, continued throughout 1972. The total value of goods and services produced in Ontario rose by 10.8 per cent over 1971 to reach a level of $42.1 billion. The growth of GNP was slightly lower than Ontario's GPP in 1972, advancing by 10.6 per cent to $102.9 billion. After discounting price increases of 4.9 per cent, real growth in 1972 in Ontario and Canada amounted to 5.7 and 5.5 per cent respectively.

Data recently released by Statistics Canada indicate that while GNP growth was strong in 1972, advances throughout the year were uneven. GNP gains were slow in the first quarter, followed by a rapid rise in the second, a pause in the third, and a rapid surge in the fourth quarter. The unevenness in activity was due primarily to erratic merchandise exports which were hampered by strikes, unexpected declines in agricultural production and by uneven purchases of consumer durables.

The implicit price index rose 4.9 per cent for Canada as a whole, compared with 3.3 per cent in 1971 and 4.5 per cent in 1970. As in the rest of the world, price pressures were the greatest in food. Construction costs and export commodities also contributed substantially to widespread price gains.

While overall growth of the Ontario economy was similar to that of Canada in general, there were notable differences in the performance of certain sectors. For example, consumer expenditures in Ontario rose more than in the country as a whole, while exports, stimulated by large increases in natural gas, crude oil, lumber and wheat grew considerably more outside Ontario. Within the investment sector, residential construction activity was approximately the same throughout Canada, but in both machinery and equipment and non-residential construction, growth in Ontario was slower than in the rest of Canada. Also, government spending in Ontario and in the rest of Canada increased at about the same pace. The net result of these activities was that the Ontario economy grew at a marginally faster rate than the Canadian economy in 1972.

In the important manufacturing sector, the long-awaited recovery finally arrived. The index of industrial production and the index of manufacturing advanced by 6.5 per cent and 6.1 per cent respectively. Since over 50 per cent of Canada's manufacturing output originates in Ontario, the positive effect of this growth was stronger in Ontario than in any other province.

The Ontario Labour Force in 1972

Employment in Ontario in 1972 grew by 140,000 or 4.5 per cent over 1971. Despite this rapid growth in employment, the labour force grew by 132,000 resulting in an average unemployment rate of 4.8 per cent for the year as a whole. This rate compares favourably with unemployment during 1971 of 5.2 per cent but was somewhat higher than the 4.3 per cent unemployment rate recorded in 1970.

Increased participation by women, and a large influx of workers in the 14-24 year range led to the unusually rapid labour force growth. In fact, many of the employment problems in Canada and Ontario have been the result of rapid labour force growth, and not lack of job opportunities as has often been suggested.

Of the 140,000 new jobs in 1972, 43,000 were in manufacturing, an increase of 5.1 per cent over the number of people employed in this important sector in 1971. This was a welcome occurrence as it was the first substantial increase in manufacturing employment since 1969. Despite this, jobs in the goods producing industries grew very little, as the number of jobs in agriculture and construction declined.

The largest increase, as in the previous two years, both in numbers and in percentage terms took place in the services sector. This sector now employs about 58 per cent of the work force as compared with 52 per cent in 1961. About 116,000 new jobs were created in the services sector, a gain of 6.3 per cent over 1971. Of all categories of services the number employed in trade and personal services grew most rapidly.

In comparison with other industrialized countries, Canada's labour force has grown faster than any other. In the past decade, Canada's work force grew by an average of 2.8 per cent annually, compared with 1.7 per cent in the U.S. and less than 1.0 per cent in West Germany, Sweden and the United Kingdom.

Foreign Trade in 1972

Canada's merchandise trade surplus which stood at $2.1 billion in 1971, dipped to a level of $1.2 billion in 1972. The latest figure is just slightly below the $1.3 billion surplus recorded in 1968. In the last four years, the surplus has fluctuated from $0.8 billion to $2.9 billion.

During 1972, imports rose at a faster pace than exports; imports increased by $3.1 billion or about 20 per cent while exports accounted for a gain of $2.1 billion or 12 per cent. The value of exports, Statistics Canada reports, reached $19,899 million in the year while imports registered a record high of $18,701 million.

The growth of Canadian exports was irregular throughout the year, with sharp upturns in the second and final quarters, while the third quarter reported only moderate gains above the first quarter. Imports, on the other hand, showed gains in each quarter of 1972, the third quarter recording the smallest advance. Seasonally adjusted at annual rates, exports rose to a high of $22.2 billion in the last quarter of the year, with imports rising to over $20 billion.

The major boost to exports came from automotive products, and particularly those supplied to the U.S. Sales of automotive products to this market, mostly originating in Ontario, rose by almost $500 million over the previous year. The same market also accounted for the bulk of a gain of $350 million in lumber shipments and a $280 million increase in crude oil and natural gas. Exports of aircraft and parts, and newsprint to the United States also showed gains in 1972, rising by $100 million and $50 million respectively.

Wheat sales in 1972 were substantially higher than a year earlier, increasing by nearly $85 million, largely resulting from huge deliveries to the Soviet Union and the People's Republic of China. Shipments of copper ores were up $50 million and those of whisky and pulp some $20 million each. Marked declines in exports were noted in aluminum and iron ore, both down by about $60 million with nickel falling by nearly $30 million.

As in the case of exports, the major impetus to imports came from automotive products and accounted for 28 per cent of the total increase. While the rise in imports was spread across many goods, the increase of $265 million in industrial machinery imports was significant. Food imports, including meat, fish, fruit and vegetables and sugar recorded a rise in value of nearly $220 million with the value of crude oil imports increasing by some $140 million. Moderate gains took place in imports of apparel, tractors, plastics, chemicals, non-ferrous metals and iron and steel products.

Payroll Taxation and Inflation

Ronald Holloway, *Economist*
Taxation & Fiscal Policy Branch

Introduction

Inflationary pressures are increasingly evident in the developed economies. The restraints on prices and incomes which governments have applied have not been fully efficient, resulting in inequities, while their sudden relaxation or breakdown tends to renew the process of inflation at an accelerated rate. Where such measures have been successful in restraining price and wage increases, a complicated combination of unfilled job vacancies in the growth sectors of the economy and a relatively high rate of concealed unemployment in stagnating and declining industries tends to persist. Over the longer run, such structural rigidity itself has inflationary consequences. The alternative policy of dampening the expansion of demands tends, however, to create overt islands of unemployment. Payroll taxation is another possibility for restraining inflation.

Basic Forms

A payroll tax may be imposed on an employer in relation to the number of employees, the pay of individual employees, or the gross amount of the payroll. Number-related taxes are frequently used to finance social security programs, usually as counterparts to employee contributions. While giving the appearance of relating costs to benefits, these taxes are unsatisfactory from other points of view. Their yields are relatively inelastic and the funding of contributions imposes an unwelcome rigidity on government expenditures. They also distort the labour mix by making low-skilled and part-time employees relatively expensive and distort the allocation of labour if applied selectively.

The appearance of a cost-benefit relationship is retained in those schemes which require employers to contribute to a fund in relation to tranches of pay of individual employees. These schemes often have lower income limits, to reduce distortion of the labour mix, as well as upper limits which are generally related to ceilings on benefits. The main disadvantage of such schemes is their complexity of administration. A tax on the gross payroll is simpler to operate, may be a contribution to general revenue, and may be applied either as a general tax or in special forms to further refined objectives. It is this group of taxes which is further considered.

As an Addition to the Tax Burden

The first case to consider is where such a tax is imposed without a reduction in other business taxes. If this happens, firms would be tempted to raise prices to maintain a constant rate of after-tax return. If all prices rise equally, the sale value of inventories and buildings, plant and machinery would also rise equally. This would raise the value of capital employed. To maintain the rate of return on capital employed with assets valued at replacement cost, the amount of the price rise would consequently have to exceed the amount of the tax.

Since the purchasing power of wages would also fall, the tax would transfer resources from wage earners (who would spend the greater part on consumption) to government which could use the tax as a short-term, deflationary measure (by reducing its borrowing from the banking system) or as a long-term deflationary measure by using the revenue to finance improved industrial efficiency. Even so, the immediate fall in the purchasing power of labour is likely to lead to widespread demands for increased wages, so completing the first round of an inflationary spiral at the cost of weakening the balance of payments position, pressing hard on those with fixed incomes, and possibly involving a loss of production through strikes.

There are, however, a number of improbabilities in this situation. First, in itself, the tax does nothing to increase the monetary supply. If there is no increase in the monetary supply, the same volume of production cannot be sold at higher prices and – in the short-run at least – firms are more likely to try to maximize sales than to try to maximize prices. The position is therefore quite different from the situation normally resulting from a general rise in wages (where governments have usually chosen to permit the expansion of the monetary supply to avoid unemployment and the increased monetary supply permits price increases without a reduction in output). This limitation is most evident for exports. If export prices rise, less is likely to be sold because the income available in other markets remains unchanged.

Besides this monetary limitation to price increases, there is the limitation arising from the availability (in both local and export markets) of foreign substitutes. Foreign competition may, in practice, be too imperfect in many sectors to act decisively in restraining price rises. But, where it does, it would also have the effect of tending to keep the value of inventories unchanged. This, in turn, would restrict an upward revaluation of capital employed. The availability of foreign plant and machinery at payroll-tax-exclusive prices would also restrict revaluation. Foreign competitors might increase their prices and this would tend to support asset revaluation. Higher distribution costs would marginally increase the cost of new capital equipment, but other costs may remain unchanged, particularly where prices have been fixed by contract. These factors favour the capital-intensive producer.

As a Substitute

Since a firm of above-average efficiency would expect to have larger after-tax profits, if a payroll tax is substituted for income tax, it would be better able to absorb increases in costs due to factors unconnected with the tax (such as improvements in quality). In a competitive situation, the result should include reduced prices. However, where industries act collectively to set prices in order to maintain a satisfactory rate of profit for their least-efficient members, a payroll tax would lead to higher prices than those which would follow from income tax.

A substitution of a payroll tax, collected monthly, for corporate income tax, would reduce the necessity for government short-term borrowing (itself an inflationary pressure and a factor in economic instability).

A possible objection against payroll tax is that it discriminates against the labour-intensive firm even when it is equally efficient. While this situation seems likely to be rare, a bias in favour of capital-intensive methods seems desirable to eliminate the uneconomic lapse in technological adaptation which appears to arise with non-discriminatory treatment. However, a general tax on payrolls would have adverse short-term consequences for employment. As a general statement, it is only in the long-run that greater capital intensity benefits employment through lower costs of increased output.

Refinements

Refinements of the tax may improve the control of inflation. One possibility is to impose a surcharge on corporations which grant pay increases in excess of both productivity improvements and the rise in the cost of living. The formula adopted would most probably relate the increase in payroll to both the change in the number of employees and capital outlays. Another possibility is to vary the tax geographically, to reduce local excess demand for labour which tends to spill over into inflation nationally.

Government Reorganization and Treasury, Economics and Intergovernmental Affairs

Ministry of Treasury, Economics and Intergovernmental Affairs

INTRODUCTION

On March 1, the Ministry of Treasury, Economics and Intergovernmental Affairs completed the second phase of its part in the massive reorganization the Ontario Government has been undergoing since 1971.

This article shows how this one-year-old Ministry fits into the new government organization. It also explains the composition and functions of the Ministry's two senior committees, outlines the Ministry's structure, and lists the activities of its branches.

COMMITTEE ON GOVERNMENT PRODUCTIVITY

In December 1971, the Committee on Government Productivity made public its third interim report, containing recommendations for what Premier Davis termed 'significant reforms in government procedures and improvements in government performance.'

The committee put forward four reasons for its proposed changes. (1) Ministers do not have sufficient time for policy-making. (2) The organization of the provincial government has grown so large and complicated that it has become difficult to manage. (3) Because the cost of continuing existing services is outstripping available revenue, an improved priority-setting system is required. (4) The operation of individual government departments as separate and distinct entities is no longer appropriate to cope with issues that increasingly involve more than one department.

To meet the new organizational requirements of the 70's the committee made numerous proposals for a regrouping of programs and activities. The three most fundamental organizational proposals were:

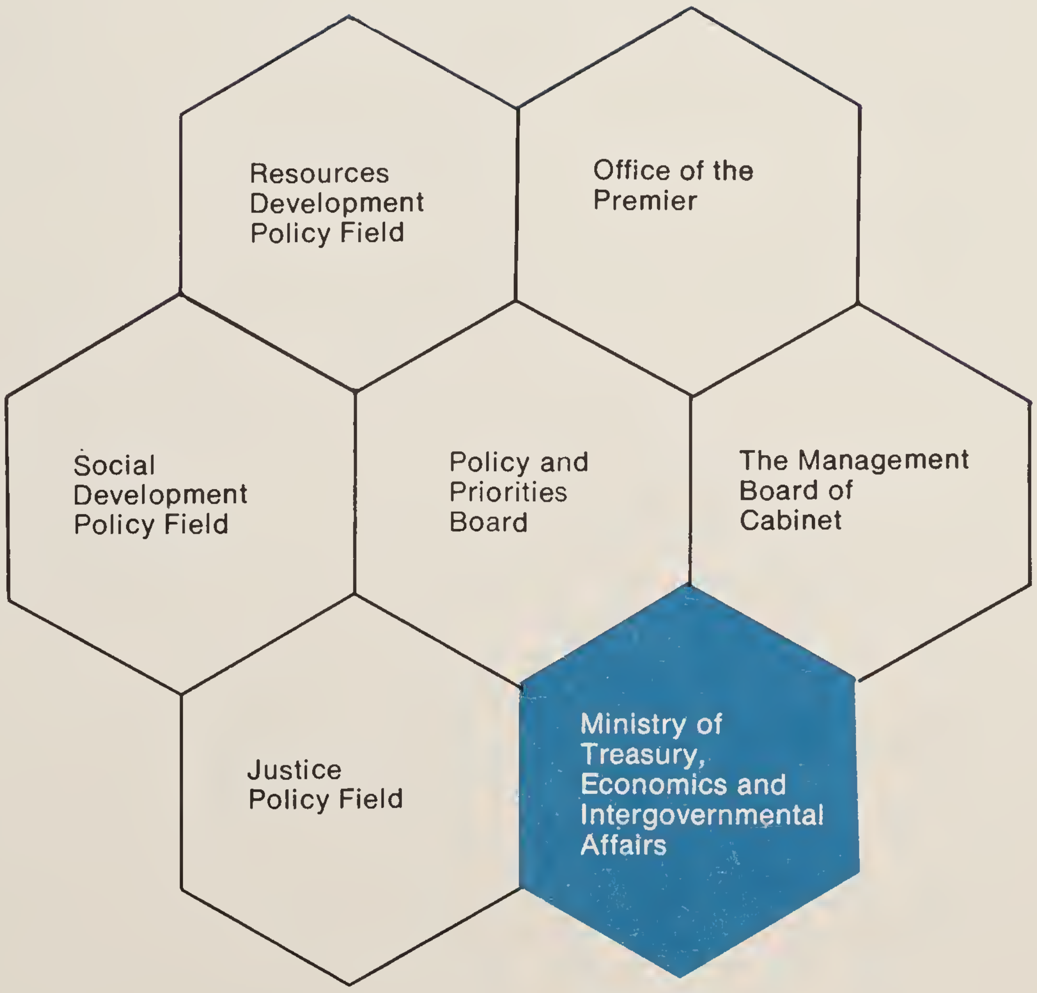
(1) the establishment of a new senior Cabinet committee – the Policy and Priorities Board. The Board's major responsibilities are to develop a strategic policy framework into which all government programs could fit, and to recommend government priorities to Cabinet;

(2) the establishment of a new kind of minister, free of the responsibilities and burdens of the chief executive of a department. This is perhaps the most important change recommended by the COGP. Called provincial secretaries, these new ministers derive their influence from membership on the Policy and Priorities Board but do not have a line control over the activities of their colleagues running the ministries. Free of the administrative responsibilities of a portfolio, provincial secretaries have time to develop, evaluate, and coordinate government policy among the various ministries in their policy field. Provincial secretaries are also in a position to devote considerably more time and thought to improving communication between government and citizens;

(3) the grouping of programs and activities into fairly self-contained areas, known as policy fields. Three policy fields have been created: social development, resources development and justice. The primary objective is to improve policy coordination among related ministries and to ensure that potential conflicts (such as those that might arise between environmental considerations and economic growth) are recognized, thoroughly discussed, and to a significant extent, resolved at a sub-cabinet level. The major mechanism for achieving this is the policy field committee, chaired by a provincial secretary and composed of the ministers within each field.

There are a number of important functions and activities involving broad policy considerations which do not fit logically into any one of the three policy fields. To arrange these functions and activities, three new ministries have been formed: the Ministry of Revenue; the

Structure of Government in Ontario


Resources Development Policy Field
Office of the Premier
Social Development Policy Field
Policy and Priorities Board
The Management Board of Cabinet
Justice Policy Field
Ministry of Treasury, Economics and Intergovernmental Affairs

Ministry of Government Services and the Ministry of Treasury, Economics and Intergovernmental affairs.

MANDATE OF THE MINISTRY OF TREASURY, ECONOMICS AND INTERGOVERNMENTAL AFFAIRS

The restructuring of the Ontario government organization is intended to ensure that sound management practices will make the most effective use of resources. Achievement of this aim demands the development of integrated policy. Accordingly, the new organization has evolved with the establishment of the three policy fields and the Policy and Priorities Board of Cabinet.

How does the new Ministry of Treasury, Economics and Intergovernmental Affairs contribute to this policy development? This question can be answered partly by outlining the responsibilities of this Ministry.

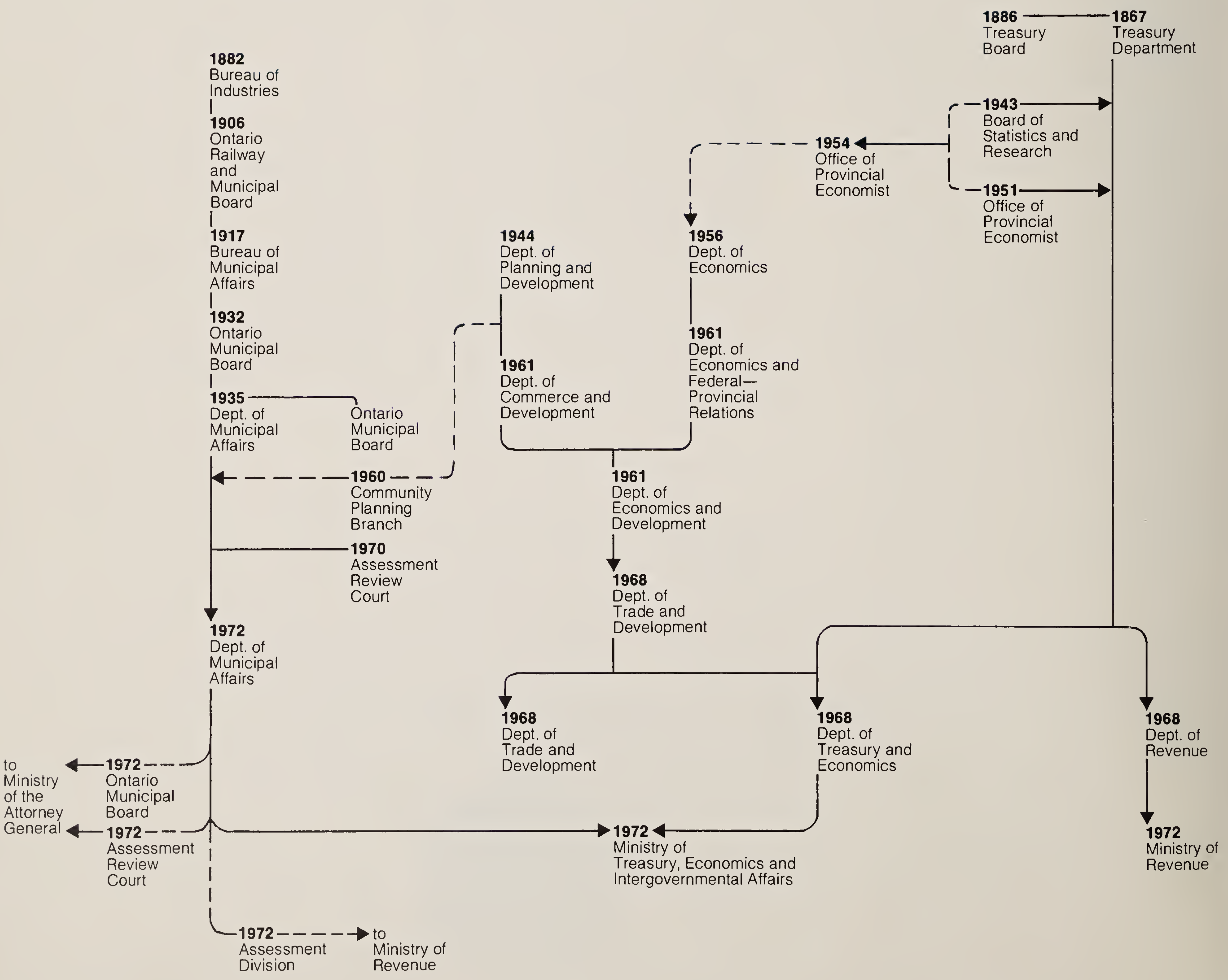
Basically, they are three-fold. First, the Ministry has direct responsibility for certain fundamental government functions: planning the Province's fiscal and economic policies, planning and implementing the Government's cash management and borrowing policies and developing provincial programs relating to municipal government and regional development. These functions are central to government and are the statutory responsibilities of the Treasurer.

Second, the Ministry has a responsibility to provide policy advice to the Government as a whole through the Cabinet committee structure. This advice ranges over a wide variety of matters that may touch the interests of all policy fields.

Third, the Ministry is responsible for coordinating Ontario's relationships with other levels of governments both inside and outside Canada.

The Ministry of Treasury, Economics and Intergovernmental Affairs combines many of the

Development of the Ministry of Treasury, Economics and Intergovernmental Affairs


1886 Treasury Board
1867 Treasury Department
1882 Bureau of Industries
1906 Ontario Railway and Municipal Board
1917 Bureau of Municipal Affairs
1932 Ontario Municipal Board
1935 Dept. of Municipal Affairs
Ontario Municipal Board
1943 Board of Statistics and Research
1954 Office of Provincial Economist
1951 Office of Provincial Economist
1944 Dept. of Planning and Development
1956 Dept. of Economics
1961 Dept. of Commerce and Development
1961 Dept. of Economics and Federal—Provincial Relations
1960 Community Planning Branch
1961 Dept. of Economics and Development
1970 Assessment Review Court
1968 Dept. of Trade and Development
1972 Dept. of Municipal Affairs
1968 Dept. of Trade and Development
1968 Dept. of Treasury and Economics
1968 Dept. of Revenue
to Ministry of the Attorney General
1972 Ontario Municipal Board
1972 Assessment Review Court
1972 Ministry of Treasury, Economics and Intergovernmental Affairs
1972 Ministry of Revenue
1972 Assessment Division
to Ministry of Revenue

functions and personnel of two former departments – Municipal Affairs and Treasury and Economics. The responsibilities described above, however, represent more than a simple merger, since the new Ministry's responsiblities are more extensive than those of the two old departments:

- the functions of the former Department of Treasury and Economics are integrated into the new Ministry and enlarged to encompass the new structure and decision-making process of the Government;
- most of the old Municipal Affairs functions are maintained but with a strong new emphasis. This Ministry now has a clear responsibility as the central coordinating agency for all the Government's relationships with local governments and with other levels of government. It is the Ministry's job to ensure that the Province's many relationships with local governments are consistent with the roles of the Province and municipalities.

These basic functions imply two methods by which the Ministry participates in the Government's decision-making process. The first is through the Minister in his capacity as Treasurer of Ontario, responsible for the budget and comptrollership of the consolidated revenue fund, and in his capacity as the Minister responsible for municipal affairs. The second is through the provision of policy advice and commentary to other ministries, policy fields and Cabinet committees. In the new structure of government, this is expected to help integrate the work of ministries and agencies at many levels. It must ensure that policy proposals going to Cabinet committees are consistent with policy on economic, financial, regional and intergovernmental matters.

The functions of the Ministry are both interrelated and government-wide in scope. For the first time, many matters traditionally handled by separate departments are coordinated within this one Ministry. There is an inherent relationship between provincial taxation, grants to municipalities, regional development, community planning, federal-provincial relations and provincial-municipal relations. All these now come under Treasury, Economics and Intergovernmental Affairs.

The Ministry's Fiscal Policy Division, to take a specific example, makes sure that provincial financial relations with local governments are developed consistently and are linked directly to the budget process. Similarly, provincial-municipal relations are coordinated with federal-provincial and inter-provincial relations, through the Ministry's Intergovernmental Affairs Secretariat. Consistency in these intergovernmental relationships has grown in importance as the federal government has shown increasing concern over urban and regional matters that were once left almost exclusively to the Province.

The new setup of the Ministry also recognizes that local government involves more than municipal councils and administrations; school boards and many other boards and commissions are included when provincial-municipal political and financial relationships are developed. This was much more difficult under the old structure.

Defining the lines of demarcation between provincial and municipal responsibilities is an important task of another of the Ministry's new divisions – the Urban and Regional Planning Division. This task has become especially urgent in matters of planning, since the Province, though increasingly active in regional planning, is anxious to leave local planning in the hands of municipal leaders. There are, of course, many other areas of activity in which both the Province and the municipalities are involved and the policies developed by Urban and Regional Planning will provide the guidelines for developing future provincial policies in this field.

The regional development program must be coordinated with the plans and programs of other ministries. As the COGP's Third Interim Report said:

> "It is essential that those departments now involved in policy issues relating to regional development and regional government be effectively coordinated both for the formulation and implementation of policy."

As well as coordinating policies affecting the Province's relationships with federal and municipal governments, this Ministry will also coordinate Ontario's relationships with various international governments and agencies.

However, it is in the provincial-municipal area that the greatest changes in emphasis will occur. By developing a comprehensive policy on provincial-municipal relations, the Ministry will make it possible for the Government to make better decisions about other ministries' policy proposals affecting local governments.

In addition to policy development, this Ministry will be involved in many day-to-day relationships with local governments. These relationships will have to reflect, to a greater extent, the partnership concept espoused by the Province. To some extent, this development should be seen as parallelling Ontario's approach to the federal government. In other words, the provincial government should be moving towards the kind of relationship with local governments that Ontario seeks with the federal government. This will involve greater freedom for local governments to establish their own priorities without constant interference and intervention by the Province. During this adjustment, the Provincial Municipal Liaison Committee, with representation from the municipal associations and with the Minister of Treasury, Economics and Intergovernmental Affairs as co-chairman, will serve as the central forum for negotiation between the Province and local governments.

HOW TWO SENIOR COMMITTEES HANDLE POLICY AND ADMINISTRATION

As part of the new Ministry's structure, the Deputy Minister now has four key executives reporting to him – three Assistant Deputy Ministers and a General Manager of Administration. Their appointments have made it possible for the Deputy Minister to establish two senior committees – the Policy Committee and the Management Committee.

The Policy Committee, as the senior body for policy formulation in the Ministry, is the most important means of ensuring that the Ministry functions as a total organization. This committee meets at least twice weekly to determine and assign priorities and provides a continuous review of the entire range of policy issues related to the Ministry. Serving as a focal-point for the consolidation of ministry-wide views on internally developed policies, the committee makes policy recommendations to the Minister prior to their submission to the Policy and Priorities Board or Management Board. The committee also provides the Policy and Priorities Board, the Management Board and the Policy Fields with coordinated viewpoints and recommendations on policy issues initiated by the three policy fields or other ministries.

For the preparation of the Ministry's Annual Estimates, the Policy Committee identifies broad program priorities and makes recommendations for the allocation of resources both for these estimates and long-term expenditure planning.

The Policy Committee chairman is the Assistant Deputy Minister of Economic Policy and Intergovernmental Affairs, and membership includes the Deputy Minister, the other two Assistant Deputy Ministers and the General Manager of Administration. Staff support to this committee is provided by the Policy Liaison and Program Analysis units. Policy Liaison personnel are in constant contact with developments in the policy fields and are able to inform the committee of emerging issues. Program Analysis personnel are involved in the Multi-Year Plan, annual estimates priorities, the planning and scheduling of programs and the administration of submissions to Policy and Priorities Board and Management Board.

The Management Committee, made up of representatives of the Assistant Deputy Ministers, provides coordination and advice to the General Manager on organizational, personnel and administrative matters in support of ministry operations and programs. Its objectives include: a continuous evaluation of the organizational efficiency and effectiveness within guidelines set by the Policy Committee, development and direction of the ministry manpower inventory and personnel development plan and coordination of the detailed preparation of the annual estimates. The Management Committee also makes sure that administrative processes and internal support procedures are efficient and fully responsive to the needs of the Ministry.

The Administrative Services Division, Legal Services and the Program Analysis units provide support services to this Committee on specific issues.

THE STRUCTURE AND FUNCTIONS OF THE MINISTRY OF TREASURY, ECONOMICS AND INTERGOVERNMENTAL AFFAIRS

The Ministry of Treasury, Economics and Intergovernmental Affairs is composed of four broad programs:

- Economic Policy and Intergovernmental Affairs
- Finance
- Urban and Regional Affairs
- Administration

In turn, these four programs are made up of seven divisions, which are further divided into branches.

I – ECONOMIC POLICY AND INTERGOVERNMENTAL AFFAIRS PROGRAM

This program consists of two divisions.

OFFICE OF INTERGOVERNMENTAL AFFAIRS

Through the Ministry, and with regular cooperation with the other divisions, the Office of Intergovernmental Affairs provides intelligence and analysis to the Government on Ontario's international activities, its relationships with the Government of Canada, provincial governments and the municipalities. Its aim is to ensure a consistent and coherent intergovernmental policy framework. The division pursues its objectives through three groups.

External Activities

This group recommends and monitors a policy and operational framework for the development of Ontario's participation in international activities. This group also:

- ensures that Ontario's interests are taken into account by the Government of Canada in furthering its international policies and programs;
- assesses international treaties and agreements contemplated by the Government of Canada which affect Ontario.

Federal-Provincial and Interprovincial Affairs Secretariat

This secretariat advises on the effect of the policies and programs of both the federal and other provincial governments on Ontario and on the balance of jurisdictional responsibilities within the federation. The principle objective is to develop effective working relationships with other governments by:

- recommending objectives, and courses of action for Ontario in its relationships with the
- Government of Canada and other provinces;
- assessing the principal non-financial draft program agreements between the governments of Canada and Ontario, and those involving other provincial governments with Ontario;
- participating in the work of major Ontario inter-ministerial committees concerned with intergovernmental issues.

Provincial-Municipal Affairs Secretariat

The secretariat assesses and advises on provincial relations with the municipalities. Its main functions are to:

- manage the work of the Provincial-Municipal Liaison Committee to ensure its effective functioning;
- identify and analyze the impact on the provincial-municipal relationship of the policies and programs of Ontario ministries and agencies, the federal government, and developments in other provincial governments.
- evaluate the Government's responses to resolutions and briefs of its municipalities and their organizations.

OFFICE OF ECONOMIC POLICY

This division, which contains two branches, provides advice to the Ministry and to the Government of Ontario in the areas of socio-economic policy planning, economic analysis, economic intelligence, policy and support systems and strategic planning.

Policy Planning Branch

This branch was formed to develop (in cooperation with other governmental planning units), coordinated policies – which promote optimal economic performance and enhance social well-being in Ontario in the medium and long-term. It advises the Ministry and the Ontario Government on the aggregate and interrelated consequences of global, technological, economic and social trends and the probability and impact of these trends occurring in Ontario. It also provides the research support for the Premier's Joint Committee on Economic Policy. The basic functions of the branch are to:

- develop comprehensive policy planning frameworks in which the formation of Ontario's economic and social policies and priorities can be integrated, assessed and adapted to changing requirements;
- provide a mechanism for encouragement of other agencies within the Government to recognize the long-term implications of policies and provide advice for individuals and organizations within the Government that need assistance in formulating long-term policies.

Economic Analysis Branch

This branch provides an assessment of the current economic and social environment in Ontario and Canada in relation to the outside world. It interprets Ontario's economic and social policies in the light of these developments and advises upon and recommends alternative short-term policy approaches. Its main functions are to:

- monitor economic and social developments in Ontario, Canada and elsewhere;
- review the short-term economic and social consequences for Ontario and the resulting provincial policy implications of developments at other levels of government;
- where appropriate, propose alternative approaches and/or make recommendations

consistent with the long-term policies adopted or considered by the Ontario Government;

- respond to requests for an analysis and assessment of specific issues and problems referred to the Office of Economic Policy originating either within government or with external organizations.

CENTRAL STATISTICAL SERVICES

Central Statistical Services is composed of four integrated units which collect, store and produce statistical information as required by the Ministry and the Government. The agency advises on matters concerning the administration of the Ontario Statistics Act, designs samples for statistical purposes and may conduct field surveys for client ministries.

At present a major project of the Statistical Secretariat within the agency is the development of the 1971 Census data access program including coordination and liaison with Statistics Canada as well as the establishment of a facility to service requests for 1971 Census data from Ontario Government ministries.

The Applied Statistical Research unit provides the Ministry and government with expertise on advanced statistical methodology required to ensure uniformity in definitions, concepts and classifications which would enable the integration and linkage of data.

The Socio-Economic Statistics section's activity provides for the collection, compilation, analysis and dissemination of statistical information relating to financial institutions, merchandizing and services, transportation and communications and other general economic and social activities in the Province.

In the fourth unit manufacturing and primary industry statistics are collected annually by means of industry questionnaires mailed to all Ontario manufacturers.

II – FINANCE PROGRAM

This program comprises two divisions.

FISCAL POLICY DIVISION

This division, operating within an internally consistent framework of rigorous short and long-term budgetary planning, proposes, develops, integrates and monitors the Government's fiscal and financial policies towards stated social and economic objectives. Particular attention is paid to federal-provincial fiscal relations, the growth of the public sector in Ontario, tax policy, coordination of expenditure and financing actions, development of provincial fiscal policy and coordinated provincial-municipal finance and tax reform. The three branches in the division are:

Intergovernmental Finance and Grants Policy Branch

The main purpose of this branch is to provide an integrated approach to Ontario's intergovernmental fiscal relations, with particular attention to federal-provincial fiscal policies and tax and cost-sharing arrangements, provincial-municipal transfers and grants policies, and the budgetary implications of intergovernmental transfers and financial commitments. The branch is committed to:

- undertaking an immediate comprehensive review of existing ministry grants and recommending options for rationalization and improvement of the grant system and establishing a central mechanism for coordinating and centralizing these transfers;
- developing and recommending means of using transfers to reinforce such long-term objectives as increased municipal budgetary autonomy, flexibility and accountability.

Taxation and Fiscal Policy Branch

The responsibility of providing a central and integrated budget system, as well as coordinating the Government's budget, rests with this branch. Its main functions include:

- making recommendations on the use of provincial expenditure and financial instruments;
- developing overall tax policy options and monitoring the performance of the Ontario tax system;
- advising on Ontario's role in national tax reform;
- developing and coordinating provincial income redistribution policies which involve expenditure and tax actions.

Municipal Finance Branch

This branch was formed to ensure that the fiscal operations of the municipal sector run parallel to those of the provincial sector and that, wherever possible, local governments' independent financial capacities are strengthened. Its range of activities necessitate:

- developing, monitoring and modifying financial provisions for the operation of existing and restructured local governments;
- examining the financial and functional implications for the Province and local governments of federal action at the local level;
- developing a comprehensive municipal financial information system.

TREASURY DIVISION

This division provides support to the Minister in his role as Treasurer and recommends policy relating to finance, debt management and the utilization of cash resources available to the Province. In addition to policy analysis, the setting of policy frameworks for sound financial management, and the reporting of budgetary and stewardship responsibilities, the Ministry presents a fiduciary service to government agencies, to the Legislature, the financial community and the public at large. Four branches make up the division. They are:

Financial Information and Accounting Policy Branch

The presentation of the financial operations and position of the Province is central to the activities of this branch. The branch has established a government-wide cohesive method for recording and reporting internally, in common terms, all transactions that ensure the validity and accuracy of financial information, provide benefits to other ministries and protect the assets of the Province.

The preparation of the Public Accounts of Ontario and other consolidated financial reports is undertaken by the branch in addition to the maintenance and control of the consolidated accounts of the Province. The development of accounting controls and design standards for accounting and financial information systems and coding classifications is one of the branch's main activities.

Finance Management Branch

The development and implementation of policy relating to finance, debt management and the utilization of cash resources available to the Province is the major function of this branch. Most activities of the Finance Management Branch are directed towards the management of an investment program which involves money market loans, temporary investments and the liquid reserve portfolio. Maintaining Ontario's credit standing, debt creation and service, internal as well as external sources of finance and the use of domestic and international capital markets are vital functions of the branch.

Audit Standards Branch

By guiding the ministries in the appreciation of systems of financial management control and company comptrollership functions, this branch seeks to bring about more effective use of resources.

The branch assists the ministries in developing and implementing corrective action as indicated by the post-audit reports of the Provincial Auditor and ensures that outstanding commitments, as conditions to post-audit, are resolved with internal control criteria.

Securities Branch

The operational support required by the Province to participate effectively and economically in the domestic and foreign capital markets is provided by the Securities Branch. In addition, the branch provides a fiduciary service to any ministry or agency requiring such a service and arranges for the complete maintenance for the Province's bond issues.

III – URBAN AND REGIONAL AFFAIRS PROGRAM

This program is based on two divisions.

URBAN AND REGIONAL PLANNING DIVISION

The planning and presentation of policy options for the orderly and cohesive development of the regions of the Province forms the basic task of this division. Planning and organizational guidelines are instituted to promote more effective, responsive and responsible local government. Three branches have been created to fulfil this objective.

Local Government Organization Branch

The development of overall provincial policies relating to the functions and structure of local government is the prime concern of this branch. Refining and adopting these policies to satisfy local needs and aspirations is also undertaken.

Additional responsibilities of the branch include constant reviewing of all legislation affecting the municipalities and the development of policy for such matters as the role and organization of municipal councils, electoral processes, the role and suitability of boards and commissions and resident involvement in the political process.

Regional Planning Branch

The main objective of this branch is to design and coordinate the implementation of regional plans to achieve optimal economic and social potential for each region of the Province. The branch provides a framework within which development proposals can be interrelated and comprehensive plans for each region can be developed. Implementation of the regional plans is monitored and modified to reflect changes in economic and social conditions.

Local Planning Policy Branch

The overall aim of this branch is to develop planning policies to provide an optimal planned physical environment for local government or systems of local services and to secure the co-operation of provincial program delivery agencies to this end.

This branch is called upon to conduct special planning projects and studies, to develop general planning standards and to develop plans for such activities as urban renewal and subdivisions.

LOCAL GOVERNMENT SERVICES DIVISION

This division was formed to encourage and assist local government in effectively and efficiently achieving a community environment whereby local needs and aspirations, consistent with provincial goals and objectives may be satisfied. The division is based on three branches.

Advisory Services Branch

The provision of advice and assistance to members and staffs of municipalities, local boards, commissions and to the general public on all matters of concern to local government is the basic task of the Advisory Services Branch.

The branch recommends the use by local government of effective organizational and management practices and techniques and assists local government in taking advantage of the many provincial and federal programs available.

Plans Administration Branch

The main function of this branch is to advise and inform municipalities, private developers, industry, the public and other ministries on such matters as official plans, subdivisions, zoning, etc. The branch has the overall responsibility of ensuring that local government programs and community development projects are consistent with provincial policy.

Subsidies Branch

The administration and payment of all grants, subsidies and loans to the municipalities is undertaken by the Subsidies Branch. In addition, the branch is responsible for the administration of employment incentives and taxation on provincial property.

NORTH PICKERING COMMUNITY PROJECT

Responsibility for planning the development of the new community of North Pickering has been delegated to an interdisciplinary team attached to the Urban and Regional Affairs Program.

The key members of the team are the coordinators drawn from both the public and private sectors and representing such disciplines as sociology, land-use planning, environmental planning, architecture, transportation and services engineering, economics and administration. The primary responsibilities of the team include:

- property acquisition;
- the preparation and implementation of a Plan for Development for the North Pickering Community;
- providing the coordination between all participants in the planning process. These include provincial ministries, municipal governments, the federal government, public and private agencies, consultants and the public at large.

IV – ADMISTRATION PROGRAM

This program consists of one division. In addition, six agencies, providing a variety of services to the Ministry, report directly to the General Manager of the Program.

ADMINISTRATION SERVICES DIVISION

The range of support services provided by this division include the acquisition of goods and services, accounting and personnel administration. Three branches have been created.

Offices Services Branch

The aim of this branch is to provide the Ministry with goods and services of a quality consistent with the needs of the operating programs. The branch is committed to implementing an effective system of inventory control, reducing the cost of in-house printing and reducing the duplication of departmental records.

Accounts Branch

The responsibility for ensuring that operating personnel receive all necessary accounting support belongs to the Accounts Branch. Its various activities are concerned with the processing for payment of all accounts, subsidies, grants, travelling expenses, etc., and the maintenance of financial records of the Ministry's revenues and expenditures.

Personnel Administration Branch

This branch is responsible for a full range of personnel services, including recruitment, staff development, staff relations, position administration and employee counselling.

In addition to administrative services, a number of other supportive units report to the General Manager. These include; Program Analysis, Organization Development, Systems and Programming, Legal Services, Library Services and Information Services.

Program Analysis

The prime responsibility of Program Analysis is to assist management in the planning required to achieve ministry objectives, in the efficient and effective allocation and utilization of resources and in the evaluation of program performance. This unit also coordinates the planning, programming and budgeting process throughout the Ministry, the Multi-Year Plan and the Annual Estimates.

Organization Development

This unit was formed to create and maintain a coordinated organization and development program to assist management in the continuing development of the Ministry to meet changing requirements.

Systems and Programming

Computerized government cheque-writing systems have been developed by this branch, which also handles automated storage and retrieval of government financial information. The branch also undertakes computerized processing and retrieval of industrial statistics, analysis of income tax schemes through computer simulation and the development of methods and procedures for administrative systems.

Legal Services

In addition to providing legal service on all aspects of law pertinent to the Ministry, this unit prepares legislation, regulations, orders-in-council, minister's orders, contracts and other agreements and represents the Ministry before various boards and tribunals.

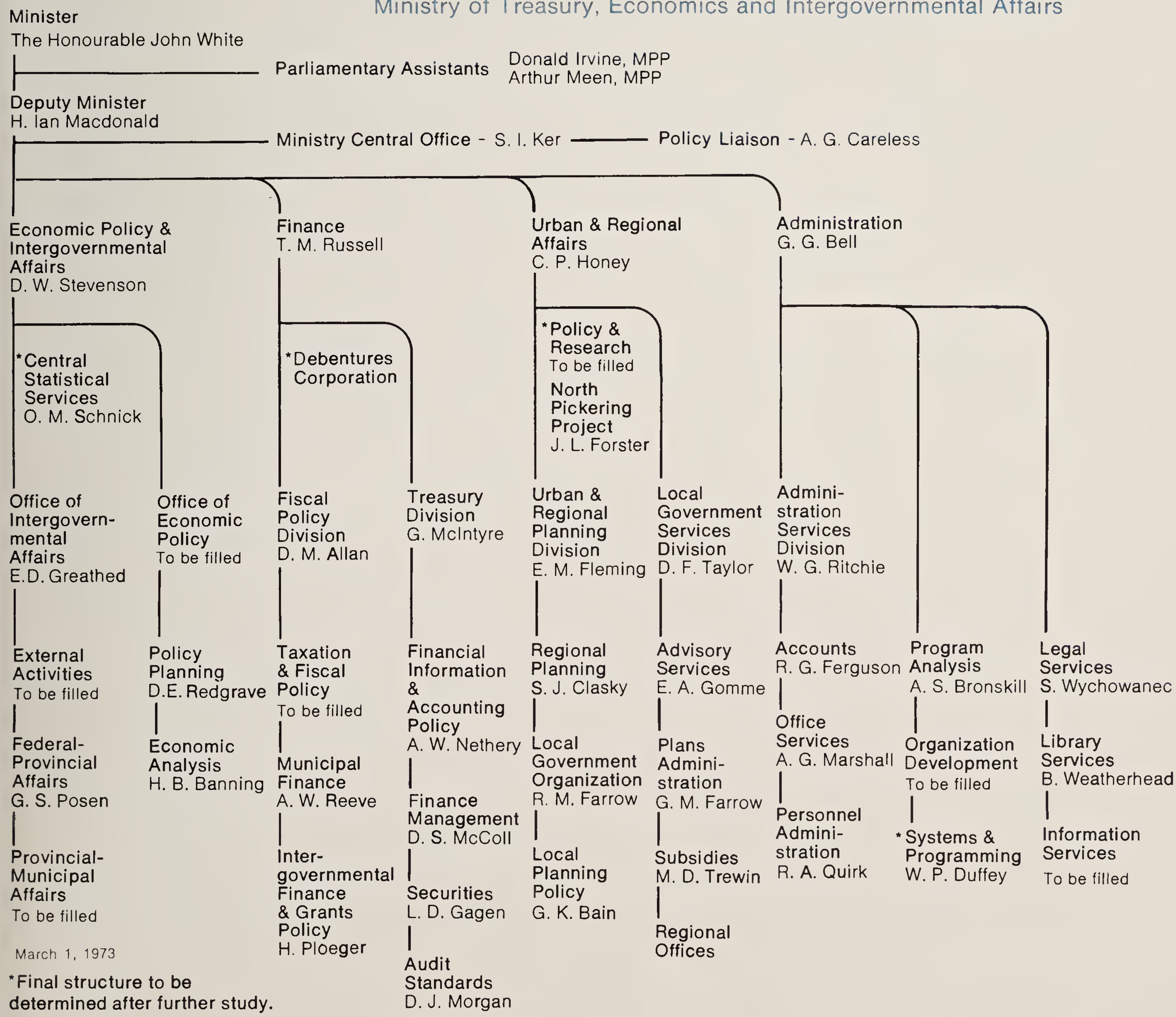
Library Services

This unit maintains a reference centre for ministry staff, other government departments and municipal officials. Its collection contains approximately 50,000 books and reports, 500 periodical titles, clippings, special files and indexes on finance, economics, town planning, federal and provincial relations, regional planning and development and municipal government.

Information Services

Communications policy advice, editorial-writing, media relations, graphic arts and distribution services are provided by Information Services. This unit also handles public inquiries about the Ministry's activities.

Ministry of Treasury, Economics and Intergovernmental Affairs

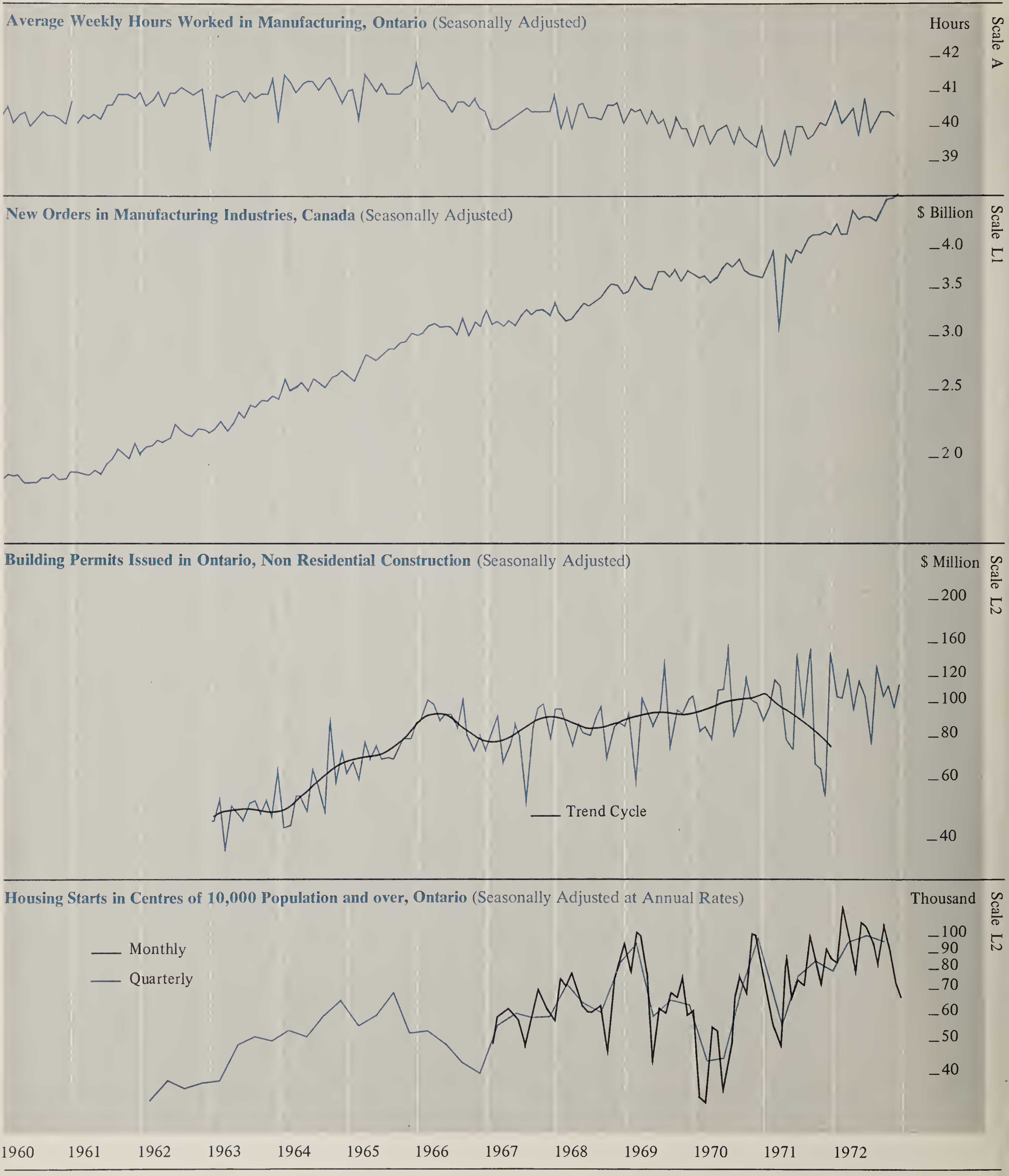


March 1, 1973

*Final structure to be determined after further study.

Selected Economic Indicators

Leading Indicators



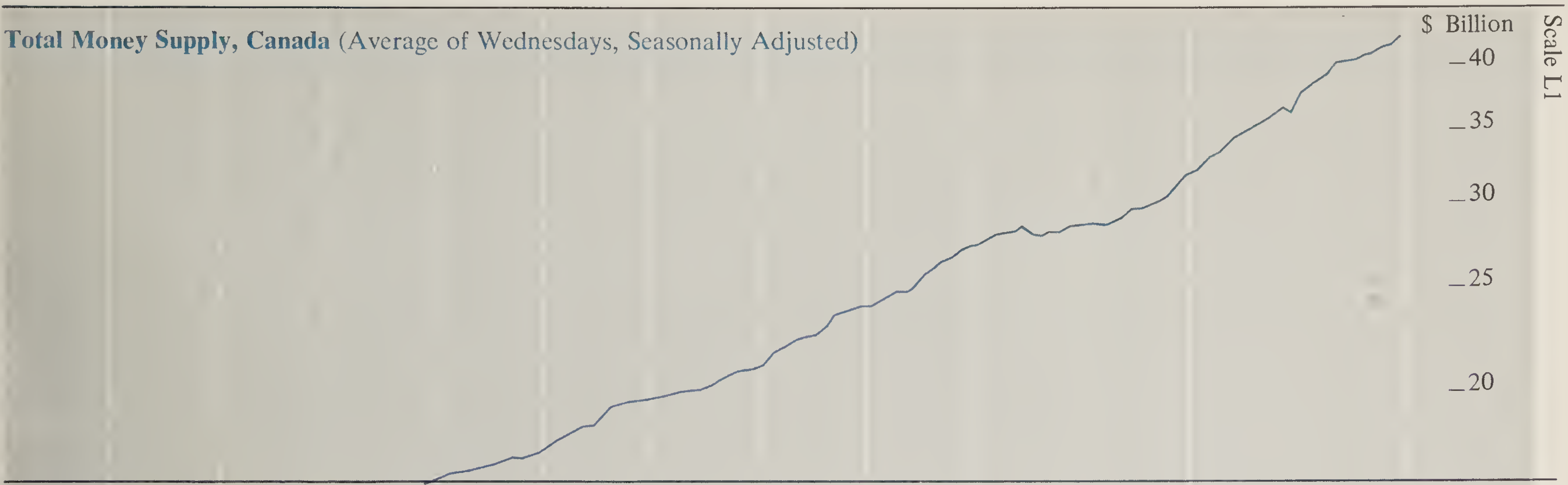
Average Weekly Hours Worked in Manufacturing, Ontario (Seasonally Adjusted)

New Orders in Manufacturing Industries, Canada (Seasonally Adjusted)

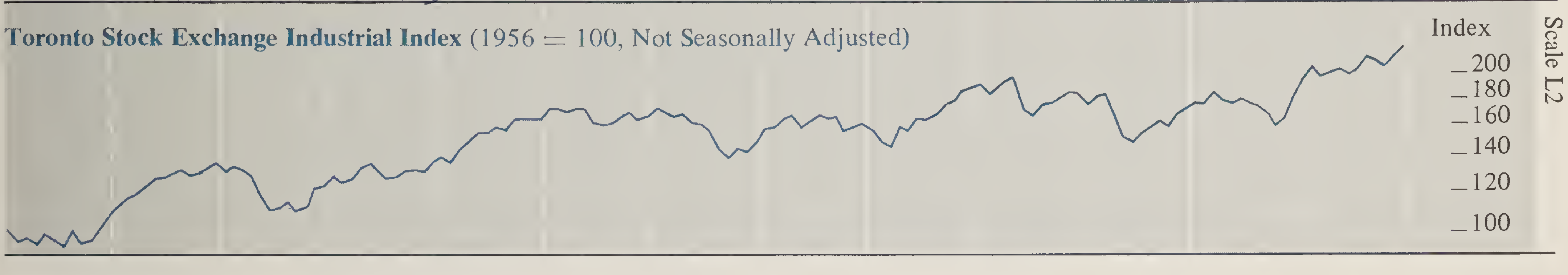
Building Permits Issued in Ontario, Non Residential Construction (Seasonally Adjusted)

Housing Starts in Centres of 10,000 Population and over, Ontario (Seasonally Adjusted at Annual Rates)

Leading Indicators

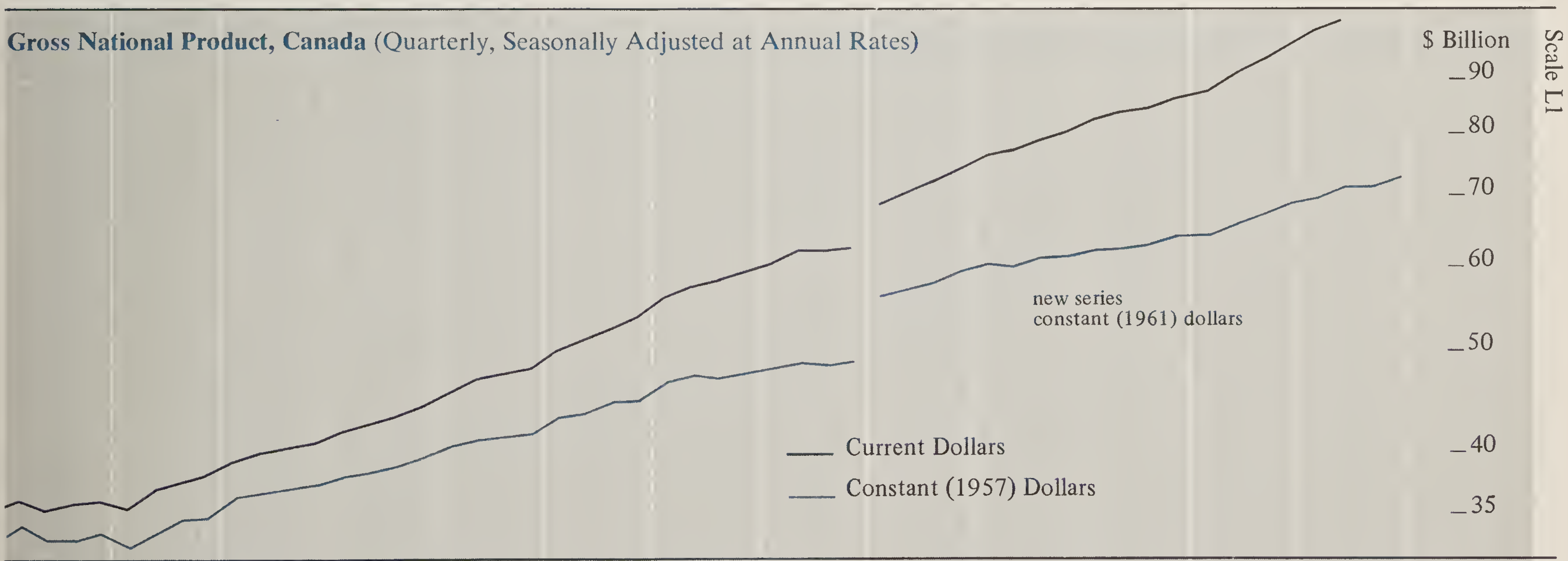


Total Money Supply, Canada (Average of Wednesdays, Seasonally Adjusted)

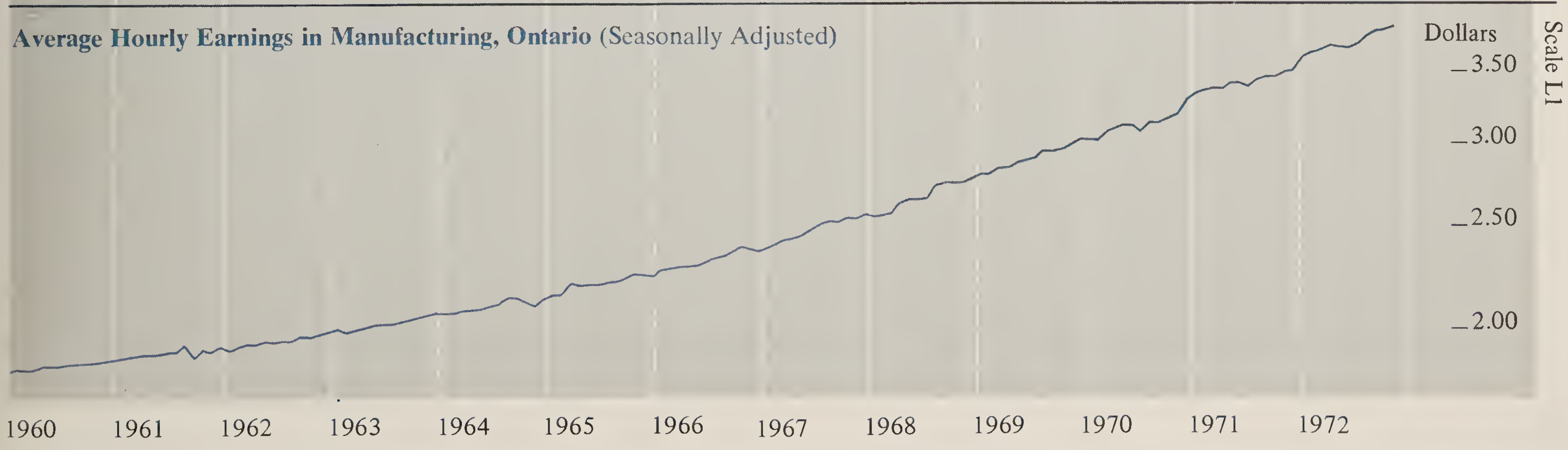


Toronto Stock Exchange Industrial Index (1956 = 100, Not Seasonally Adjusted)

Coincidental and Lagging Indicators

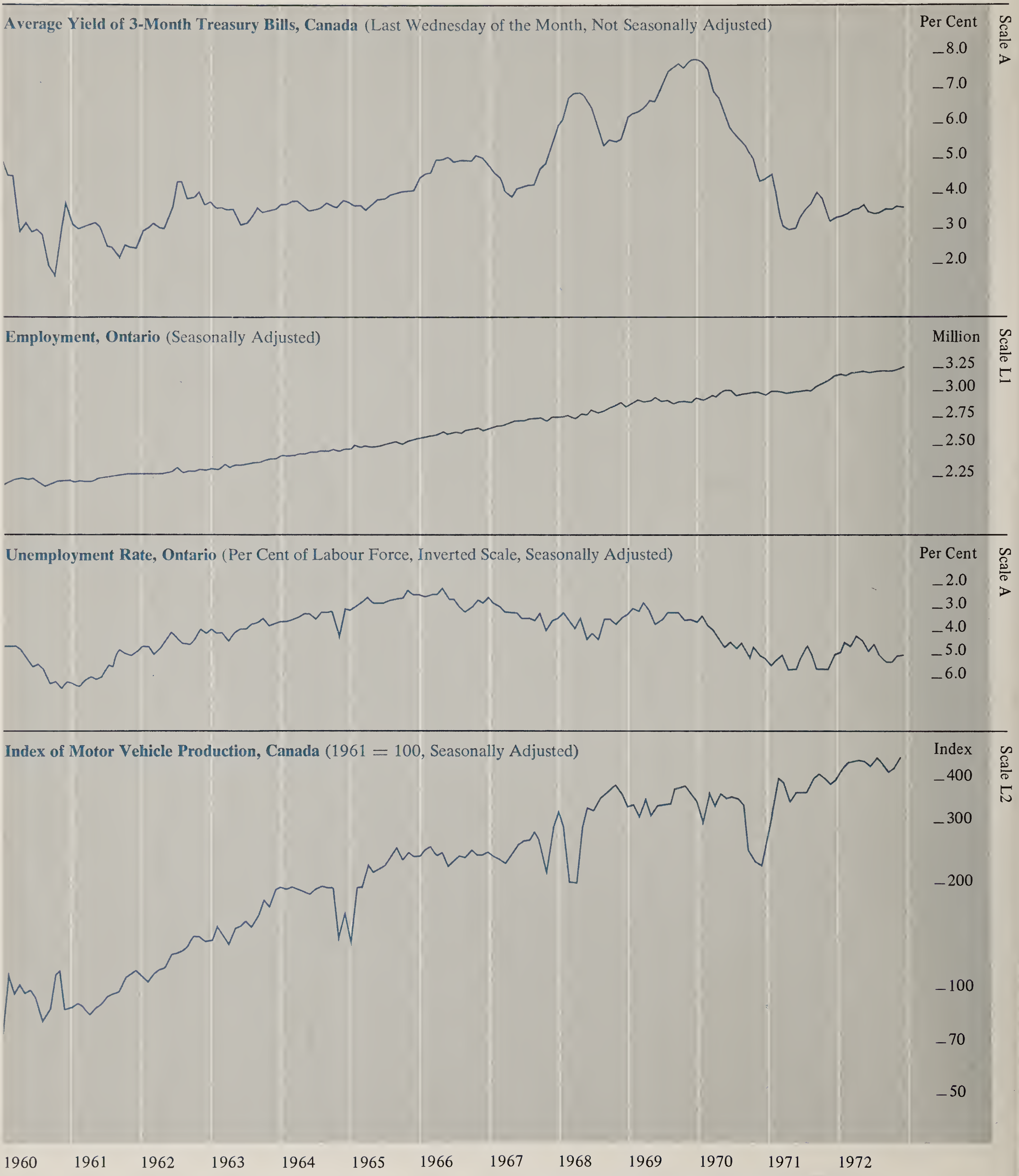


Gross National Product, Canada (Quarterly, Seasonally Adjusted at Annual Rates)



Average Hourly Earnings in Manufacturing, Ontario (Seasonally Adjusted)

Coincidental and Lagging Indicators



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Economic Indicators

Seasonally Adjusted

		1971		1972											
		Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Leading Indicators															
Average Weekly Hours Worked in Manufacturing	Number	40.0	40.4	40.7	40.1	40.2	40.5	39.7	40.8	39.8	40.1	40.4	40.4	40.2	40.5
New Orders in Manufacturing Industries[c]	$ Million	4,267.0	4,216.1	4,368.1	4,213.4	4,234.7	4,563.0	4,439.8	4,488.0	4,459.5	4,402.2	4,561.6	4,745.0	4,760.4	4,836.0
Building Permits Issued in Ontario, Non-Residential Construction	$ Million	53.1	139.6	103.4	102.5	123.2	95.1	114.7	104.7	76.7	128.2	104.7	110.4	96.7	112.4
Urban Housing Starts (Annual Rate)	Number	98,500	77,500	82,900	123,100	94,000	78,700	108,600	106,700	97,000	82,700	108,500	91,600	71,800	66,500
Money Supply[c]	$ Million	37,016	37,353	38,338	38,656	39,099	39,655	40,507	40,649	40,862	41,280	41,515	42,028	42,287	42,839
T.S.E. Industrial Index[u]	1956 = 100	166.2	181.6	197.3	203.6	197.7	200.0	204.0	199.7	204.8	214.1	210.8	203.2	215.4	221.6
Business Failures[u]	Number	94	61	44	61	135	78	153	94	84	101	67	100	102	82
Business Failures – Liabilities[u]	$ Million	5.7	3.7	3.4	4.7	8.7	9.0	7.7	4.3	3.9	7.4	4.5	4.1	13.8	3.8
Coincidental and Lagging Indicators															
Gross National Product[c] (Annual Rate)	$ Million		96,596			98,992			101,964			103,728			107,056
Average Hourly Earnings in Manufacturing	Dollars	3.52	3.53	3.62	3.66	3.66	3.70	3.69	3.68	3.73	3.79	3.82	3.84	3.86	3.87
3-Month Treasury Bill Rate[c,u]	Per Cent	3.24	3.21	3.36	3.45	3.57	3.64	3.73	3.50	3.46	3.50	3.62	3.57	3.68	3.65
Cheques Cashed in Clearing Centres[l]	$ Million	8,248	8,098	7,627	7,940	7,508	8,010	7,409	8,144	8,437	8,751	8,470	8,936	8,449	8,768
Retail Trade	$ Million	1,036	1,013	1,038	1,040	1.042	1,072	1,083	1,081	1,093	1,088	1,098	1,128	1,115	1,107
Labour Force	000's	3,314	3,318	3,349	3,338	3.366	3,352	3,371	3.370	3,377	3,395	3,408	3,408	3 416	3,441
Employed	000's	3,135	3,153	3,188	3,185	3.208	3,209	3,220	3.207	3,219	3,224	3,227	3,227	3,243	3,269
Unemployed	000's	179	165	161	153	158	143	151	163	158	171	181	181	173	172
Unemployed as % of Labour Force	Per Cent	5.4	5.0	4.8	4.6	4.7	4.3	4.5	4.8	4.7	5.0	5.3	5 3	5.1	5.0
Wages and Salaries	$ Million	1,809	1,827	1,853	1,857	1,875	1,894	1,893	1,922	1,923	1,933	1,952	1,973	1,997	2,027
Index of Industrial Employment	1961 = 100	131.9	131.5	132.2	132.3	133.2	133.9	134.8	134.8	134.4	133.5	134.2	136.2	135.7	134.6
Index of Industrial Production[c]	1961 = 100	187.5	187.8	189.4	189.5	191.1	195.1	192.8	194.0	194.0	192.6	195.4	200.4	202.3	203.3
Total Manufacturing[c]		184.0	184.3	186.1	185.0	187.1	191.0	188.3	190.9	191.6	189.8	191.9	194.3	196.0	198.5
Non-Durables[c]		163.4	163.7	164.5	162.9	165.4	169.4	167.5	172.0	170.4	169.1	171.4	172.7	173.1	175.9
Durables[c]		210.1	210.3	213.3	213.1	214.6	218.4	214.6	214.8	218.5	216.1	217.9	221.5	225.0	227.1
Mining[c]		190.2	190.6	192.2	194.9	193.3	200.8	197.2	189.3	185.3	185.0	192.8	210.9	212.7	206.7
Electric Power and Gas Utilities[c]		213.3	213.8	213.5	218.8	221.9	221.3	224.3	228.2	228.3	227.9	229.2	236.4	239.6	239.2
Primary Energy Demand (Annual Rate)	BKWH	70.26	68.83	70.19	72.37	72.63	72.07	71.74	72.90	73.58	73.16	74.64	76.15	76.56	75.43
Exports (including re-exports)[c]	$ Million	1,507	1,508	1,485	1,580	1.551	1.559	1,675	1,750	1,486	1,600	1,569	1,859	1,982	1,826
Imports[c]	$ Million	1,387	1,362	1.496	1,416	1.517	1.525	1.538	1,514	1,532	1,603	1,531	1,667	1,671	1,707
Unclassified Indicators															
Foreign Exchange Reserves[c,u]	U.S. $ Million	4,573	4,852	4,838	4,841	4,903	5.005	5,210	5,376	5,349	5,358	5,370	5,372	5,191	5,189
Industrial Materials Price Index[c,u]	1935-39 = 100	267.9	269.8	277.1	282.8	291.7	290.6	294.5	295.7	294.9	300.9	303.1	317.4	319.4	325.4
Consumer Price Index[c,u]	1961 = 100	135.4	136.3	136.7	137.3	137.4	138.2	138.3	138.5	140.2	141.3	141.8	142.0	142.3	143.3
Toronto[u]		130.5	131.6	132.0	132.8	132.6	133.4	133.4	133.9	135.7	135.9	136.6	136.2	136.6	137.7
Ottawa[u]		132.3	133.0	133.6	133.9	134.1	135.1	134.7	134.9	136.1	137.4	137.9	137.6	138.2	139.1
Thunder Bay[u]	1969 = 100	104.9	105.4	105.8	106.3	106.3	107.0	107.1	106.6	107.2	108.4	108.9	108.5	109.1	109.5
Purchasing Power of 1961 Consumer Dollar[c,u]		0.74	0.73	0.73	0.73	0.73	0.72	0.72	0.72	0.71	0.71	0.71	0.70	0 70	0.70

[c] *Statistics for Canada.*

[u] *Not seasonally adjusted.*

[l] *Ontario less Toronto.*

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Ontario Economic Review

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Ministry of Treasury, Economics and Intergovernmental Affairs

Hon. John White,
Minister of Treasury, Economics and Intergovernmental Affairs
H. Ian Macdonald, Deputy Minister

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Government of Ontario**

Hon. John White
*Minister of Treasury, Economics
and Intergovernmental Affairs*

H. Ian Macdonald
Deputy Minister

The *Ontario Economic Review* is prepared and edited bimonthly in the Economic Analysis Branch of the Office of Economic Policy, Ministry of Treasury, Economics and Intergovernmental Affairs. The review presents articles of interest as well as current information on economic activity in Ontario. Signed articles reflect the opinions of their authors and do not necessarily represent the views of the Ministry.

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About the Review

The feature article for the May/June edition of the *Ontario Economic Review* examines the impact of the 1965 Canada-U.S. Automotive Agreement on the growth of the Canadian automotive industry. The Agreement has recently been brought to the fore in relation to developments in the energy field.

The export performance of the Canadian automotive industry has been outstanding, with the export share of industry production rising from 8 per cent in 1964 to 74 per cent in 1971. The effect on the automotive trade balance with the United States was to turn around a deficit of $602 million in 1964 to a $202 million surplus in 1970.

The article, which provides a historical perspective for the intergovernmental Agreement, was prepared by N. Kristoffy in the Economic Analysis Branch of the Ministry of Treasury, Economics and Intergovernmental Affairs. Considerable assistance in the drafting of the report was provided by Louise Steele of the Ministry of Industry and Tourism.

The article on family allowances, prepared by Wendy A. Powell in the Taxation and Fiscal Policy Branch, reviews some recent proposals by the federal government for a new program of benefits to replace the existing family and youth allowances.

Family allowances are examined as an income security device, and the new proposals are viewed in the light of previous reform proposals and the federal-provincial setting.

Indicator Charts, Pages 9-11

Fluctuations in aggregate economic activity – commonly used to define business cycles – do not necessarily correspond with fluctuations in the individual activities which make up the aggregate. Instead different indicators of economic activity may vary with respect to both their rates of growth and the timing of their peaks and troughs: some may grow more rapidly than others, some change direction sooner.

Those activities which tend to assume a direction in advance of the aggregate – because they relate to future rather than present production – are referred to as leading indicators, and are widely used to anticipate the short-r[illegible] future course of the overall economy. The charts on pages 9, 10 and 11 in the *Ontario Economic Review* present a number of these leading indicators, as well as several which are coincidental to or lag behind the aggregate, to provide for the reader an opportunity to make such an evaluation.

While comparisons of the timing and direction of general changes in the various indicators can readily be made, great care must be exercised in making such a comparison of the amplitude of fluctuations. Of the three vertical scales used – 'A' (arithmetic) and 'L1' and 'L2' (logarithmic scales with one and two cycles respectively over a given vertical distance) – only the logarithmic scales can be used to compare relative changes in different indicators. *And this applies only when all series being compared are on the same logarithmic scale.* In such a situation all parallel lines represent equal rates of growth, the exact rate of growth being determined by the slope of the line.

New Directions in Family Allowances: A Review

Wendy A. Powell, *Economist*
Taxation and Fiscal Policy Branch

I – INTRODUCTION

The federal government has proposed major changes in the Canadian family allowance system. In a working paper tabled in the House of Commons on April 18, proposals were advanced to replace the existing family and youth allowances with a new and substantially enriched program which would be an essential element of income supplementation in Canada.[1]

The federal proposal contains three main features. Firstly, family allowance payments would be almost tripled from the current average payment level of $7.21 to an average of $20.00 per month. The average would be reviewed from time to time in light of changes in the Consumer Price Index. Secondly, allowances would be made taxable by including payments in the taxable income of the parent claiming the child as a dependent. Lastly, provinces would be given the opportunity to vary payment levels according to the age of the children and/or the number of children in the family provided that the average payment in the province remains at $20 per month per child, and that payments do not fall below a certain minimum level.

Two interesting concepts are introduced in the federal proposal. Firstly, while the allowances would be universal, the taxation of allowances would introduce a degree of selectivity in the distribution of net benefits. Parents with no taxable income would retain the full amount of monthly payments while upper-income parents would return a significant portion of benefits through income taxation. Secondly, provision for provincial flexibility would allow provinces, for the first time, to determine the precise level of benefits to be paid under a federally-administered income security program. In theory, this provides a framework for provinces to alter federal allowances in accordance with their own social priorities.

The purpose of this article is to explore the background to the newly proposed family allowance plan with particular emphasis on three areas – the role of family allowances as an income security device, previous reform proposals, and the federal-provincial context.

II – ROLE OF FAMILY ALLOWANCES

Family allowances are one method of providing regular income supplements to families. The first family allowance programs were introduced in Europe in the late 19th century, by employers, on a voluntary basis to assist employees in meeting the additional costs of raising children. The period 1915 to 1930 witnessed a rapid increase in the number of family allowance programs and the consolidation of programs in major industries. Beginning in 1930, voluntary programs were gradually replaced with compulsory plans. At present, over 60 countries including all 27 European states, have family allowance programs operating on either a universal or employment-related basis.[2]

Family allowance plans vary in terms of the number of children covered, allowance rates, and financing methods. More than 80 per cent of the plans pay allowances to all children in the family; others commence payments with the second, third or even fourth child. Less than 10 per cent of the plans pay benefits on the basis of a means test. A significant number of plans use a progressive scale of benefits providing increasing payments for each additional child in the family. The remainder of programs provide equal benefits for each child with a few programs varying payments according to age. Universal programs are for the most part financed from general tax revenues while employment-related programs are generally financed through a payroll tax paid by employers.

While family allowance programs vary from country to country, they generally share the common purpose of promoting the well-being of children by attempting to reduce the gap between family incomes and needs. The underlying argument in support of family allowances is that no positive relationship exists between income and family need or size, with the result that the needs of children may not be met in large and lower-income families.

Opposition to Family Allowances

Four main arguments have been cited against family allowance programs: "(1) Such allowances may tend to increase the birth rate, especially among poorer families; (2) the allowances may not be spent on children; (3) the allowances may tend to depress wages; and (4) a large portion of total family allowance payments would be to families who by no stretch of the imagination are poor".[3]

It is beyond the scope of this article to examine in detail the nature of these arguments. However, according to existing literature on the subject, there appears to be no statistical evidence to support the first argument.[4] With respect to the second argument, it is difficult to determine precisely how each family allowance dollar is spent. However, a number of surveys undertaken in Canada shortly after the program commenced did indicate that, on the whole, family allowances were being spent to improve child welfare.[5] The third criticism may or may not be valid depending on the method of financing. In the Canadian program, which is financed out of general tax revenues, there is no evidence that allowances have had a depressing effect on wages. On the other hand, a program financed through an employer-payroll tax could conceivably inhibit wage increases. The validity of the fourth criticism is related to the objective of the program. If family allowances are intended to function strictly as an anti-poverty measure, then an income-related program is clearly more efficient than a demogrant. If however, the objective is to redistribute income towards children, then a demogrant program financed through the progressive taxation of personal incomes will, to some extent, redistribute income in favour of lower-income families with children.[6] Although the demogrant is less effective in redistributing income, it tends to be the more popular system for reasons related to ease of administration and the minimization of social stigma.

In any event, the federal government, in conjunction with the provinces, has chosen family allowances as the first step in the development of a new income supplement policy for Canada. The specific form of the proposal is very much related to the past debate over alternative plans, particularly the Family Income Security Plan.

III – CANADIAN FAMILY ALLOWANCE POLICY

Universal family allowances were introduced in Canada in 1945 to meet a number of social and economic objectives. Firstly, they were intended to promote the well-being of children. Secondly, family allowances would compensate families for the inability of the wage structure to take family size into account. Family allowances would therefore have a direct impact on poverty by reducing the disparity between family income and family needs. Thirdly, it was claimed that the program would bolster income and employment during the post-war years by raising total consumption expenditures.[7] Lastly, it was held that a family allowance program financed through the progressive taxation of personal incomes would, to some extent, redistribute income from upper-income families to lower-income families and from richer provinces to poorer provinces.[8] Youth allowances were introduced in 1964 to encourage children to remain in school up to age 18.

In recent years, the existing family and youth allowance programs have been widely criticized. Since payment levels have remained virtually unchanged since the inception of the program ($6 a month per child under age 10, $8 per month per child aged 10 to 15 and $10 a month per child aged 16 to 17), while the cost of living has more than doubled, family allowances now have a limited impact in meeting the additional requirements of families with children.

Family Income Security Plan

The federal white paper on income security published in November 1970, proposed to replace universal family allowances with a selective income-tested Family Income Security Plan (FISP).[9] The FISP was designed to concentrate family allowance payments among lower-income families and to eliminate payments to all families earning over $10,000 annually.

The FISP proposal went through a number of modifications before legislation was introduced in September 1971. The final plan provided for maximum monthly payments of $15 for children under age 12 and $20 for children 12 to 17 years of age. Payments would be reduced by 33 cents per month per child for each $100 of family income above designated floors. For example, a family with two children and $7,000 income would receive $202 annually, if income rose to $9,000, benefits would decline to $44 annually.[10]

The FISP had good arguments in its favour. It would have redirected available funds to families with children who were most in need. Given limited resources and a strict anti-poverty objective, this selective system of payments would have resulted in a more efficient use of available funds.

However, a number of strong arguments were raised in criticism of the FISP plan. For example, the Ontario Government expressed concern over the lack of integration of the FISP with the personal income tax system. Ontario illustrated that the combined marginal rate effects of the personal income tax rate schedule and the FISP recovery rates on families of different sizes and various income levels produced anomalies and inconsistencies, and in many cases, severe disincentives to increase earnings.[11]

Another criticism was that the FISP would be detrimental to the middle-income group by reducing or eliminating their present benefits.[12] It also was argued that the selective nature of the plan would distinguish low-income families from upper-income families, and thereby attach a stigma to receipt of benefits.[13] Moreover, administration of the scheme would be complex and expensive relative to the existing program. In addition, it was pointed out that in many cases, family allowances paid to lower-income families would be less than the value to upper-income families of tax exemptions for dependent children. It was argued that the anti-poverty objective required more far-reaching measures than family allowances.[14]

Recommendations were made to the federal government by members of Parliament, by the Canada Council on Social Development, and by the Royal Commission on the Status of Women, that universal family allowances be maintained and the recovery of benefits to upper-income families be made through the personal income tax system, either through the normal marginal rate structure or through a special taxation scale permitting up to 100 per cent recovery.[15] The Canada Council on Social Development further recommended that children's exemptions be eliminated. The FISP Bill did not pass third reading in July 1972, and was not subsequently reintroduced.

The Castonguay – Nepveu Report

Shortly after publication of the federal white paper on income security, *The Castonguay-Nepveu Report* was published in Quebec.[16] This report contained far-reaching proposals for a comprehensive and integrated income security plan. Like the federal white paper, the report laid strong emphasis on developing a new family allowance system.

The Castonguay-Nepveu Report recommended that family allowances cover a significant portion of the costs of child-rearing and that the remaining portion be covered by general social allowances. Family allowances would be paid on a universal basis and recovered from upper-income families by means of a separate and distinct taxation scale, incorporated in the income tax form, taking into account both family size and income level and permitting up to 100 per cent recovery of benefits.

While *The Castonguay-Nepveu Report* recommended selectivity within a universal program, Bill 286 tabled in the National Assembly in December 1971, proposed a selective family allowance program similar to the federal FISP proposal. The two plans differed mainly in that the Quebec plan would provide significantly greater benefits to large families. Thus, both Quebec and the federal government had made substantive proposals for reform of the family allowance system. This raised a number of important questions concerning federal-provincial jurisdiction and administration of family allowances.

IV – FEDERAL-PROVINCIAL RELATIONS

The background of federal-provincial affairs in the area of family allowance policy is closely connected to the recent history of constitutional discussions between the federal government and the provinces. Over the past decade, one of Quebec's social policy priorities has been in the area of family allowances. Quebec established its own Youth Allowance Program three years before a similar program was adopted for Canada. In 1967, it implemented a provincial family allowance system, supplementary to the federal program, which combined universal family allowance payments with the elimination of children's exemptions under the Quebec provincial income tax.

A major issue at the June 1971 Constitutional Conference of First Ministers in Victoria was jurisdiction in the field of social policy. Quebec unsuccessfully sought changes in the British North America Act which would have given the provinces primary responsibility for social policy. Among other things, this would have provided a basis for independent provincial family allowance policy.

After the Victoria Conference, with the constitutional question put aside, at least temporarily, Quebec sought to reach administrative and legislative agreement with the federal government on the specific issue of family allowances. In September 1971, Prime Minister Bourassa requested that the federal government include provisions in its FISP Bill to the effect that federal family allowances could be structured according to provincial family allowance legislation.[17] Subsequently, the federal government appeared to accept the principle involved in this suggestion. In March 1972, Prime Minister Trudeau proposed a formula for provincial participation in the design and financing of the FISP. The formula provided that a province could vary federal payments subject to minimum standards in return for financing at least 15 per cent of the cost of the Plan within the province.[18] When the FISP Bill failed to pass in July 1972, this offer became somewhat academic, but nevertheless, it set the stage for things to come.

In November 1972, the provincial Ministers of Welfare met in Victoria to discuss common problems in the field of income security and social services. At the conference, Quebec indicated that it had changed its family allowance proposal and was now advocating a system of universal, taxable allowances which would involve the integration of federal and provincial family and youth allowance programs.[19] In addition, Quebec indicated that it continued to

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regard family allowance policy as the first priority in income security reform, a view which was received sympathetically by other provincial ministers. The conference communique stressed the need for a federal-provincial review of the income security system and cited family allowances as one area of immediate priority. In addition, it was recommended that provinces should have the administrative responsibility in this field.[20]

Shortly after this conference, the Minister of National Health and Welfare announced in January that the federal government intended to undertake, in conjunction with the provinces, a major review of the income security system.[22] He also announced that family allowances would be a fundamental part of this system and that the federal government was prepared to move quickly in this area after consultations with the provinces. Subsequently, the federal plan was announced and discussed at the federal-provincial Meeting of Welfare Ministers in April 1973.

V – CONCLUSION

The federal decision to initiate a major, new family allowance program at the outset of the federal-provincial income security review is the cumulative result of a number of factors. Firstly, the existing family allowance system, basically unchanged for almost 30 years, was in need of reform. Secondly, the decision followed almost three years of extensive review of a number of alternative proposals for reforming the family allowance system, emanating primarily from the federal government and Quebec. The current proposal reflects a move away from more complex alternatives and the placing of a premium on simplicity and integration with the tax system.

Thirdly, it became clear that most, if not all provinces, strongly supported immediate action in the area of family allowances as a first major step towards income security reform. Fourthly, the proposal reflected a view that perhaps at last a mechanism had been found to progress towards an accord between the federal government and the provinces, particularly Quebec, in the field of social policy. The proposal appears to permit Ottawa to retain full command of its spending power, and the maintenance of national standards, while at the same time it creates a framework for the achievement of separate provincial social policy objectives. How well it accomplishes this dual objective remains to be determined.

It is not without interest to note that there is a fifth important factor, hitherto unmentioned, underlying the federal proposal. That is, in the aftermath of tax reform the federal government had found itself with surplus revenue capacity primarily created by extremely high growth in personal and corporate income tax revenues.[22] This revenue growth placed the federal government in the position of being able to propose an $800 million net enrichment in family allowances shortly after announcing personal income tax cuts with a total value of $1.3 billion for 1973-74 and increased Old Age Security payments costing an additional $290 million.[23]

The federal family allowance proposal is one initial aspect of a proposed major federal-provincial income security review which will encompass a wide range of income maintenance and social assistance programs. As the review moves to subsequent stages, it will become both more comprehensive and more difficult as new and possibly far-reaching program alternatives are developed. However, at this stage, it can be said that both the style and substance of the family allowance proposal have created a sound foundation for progress.

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[1] *Hon. Marc Lalonde,* Working Paper on Social Security in Canada *(Ottawa: April 1973). The working paper outlines a conceptual framework for the federal-provincial review of income security and advances specific proposals related to family allowances and the Canada Pension Plan.*

For Ontario's preliminary views on the overall process of income security reform see, Hon. Rene Brunelle, Perspectives on Income Security *(Toronto: April 1973).*

With respect to the Canada Pension Plan, Ontario published an extensive set of proposals. See Hon. John White and Hon. Rene Brunelle, Ontario Proposals for Amending the Canada Pension Plan *(Toronto: April 1973).*

[2] *For a full discussion of the evolution of family allowance programs, see, James C. Vadakin,* Family Allowances *(Miami: University of Miami Press, 1958), and by the same author,* Children, Poverty, and Family Allowances *(New York: Basic Books Inc. Publishers, 1968).*

[3] *Christopher Green,* Negative Taxes and the Poverty Problem *(Washington: The Brookings Institution, 1967), p. 47.*

[4] *See Vadakin,* Children, Poverty, and Family Allowances, *pp. 95-101.*

[5] Ibid., *pp. 103-107.*

[6] *For a discussion of who benefits from the Canadian Family Allowance Program and children's tax exemptions, see Lawrence A. Kelly,* Family Allowances and the Tax System *(Kingston: Industrial Relations Centre, Queen's University, 1971).*

See also, Hon. John Yaremko, A Brief Prepared for the Special Senate Committee on Poverty *(Toronto: May 1970), p. 28-34.*

[7] *Hon. John Munro,* Income Security for Canadians *(Ottawa: 1970), p. 44.*

[8] A Review of the Role of the Department of National Health and Welfare in relation to Poverty *(Ottawa: February 1970), p. 31, cited in Hon. John Yaremko,* op. cit., *p. 29.*

[9] Hon. John Munro, *p. 2.*

[10] *Assumes both children are under 12 years of age.*

[11] *Taxation and Fiscal Policy Branch, Department of Treasury and Economics,* Preliminary Estimation of the Marginal Impact on Increased Earnings of the Three Federal Reform Programs – Personal Income Tax, Unemployment Insurance, and Family Income Security Plan *(Toronto: July 1971).*

For a discussion of the role of the personal income tax system in income security policy, see B. A. Smith, "Notes on Ontario Income Security Policy," Report of Proceedings of the Twenty-Fourth Tax Conference *(Toronto: Canadian Tax Foundation, 1973).*

[12] *Canada,* House of Commons Debates – *June 27, 1972, pp. 3545; July 7, 1972, pp. 3872-3874, 3882-3884.*

[13] Ibid., *March 24, 1972, pp. 1140-1141; July 7, 1972, pp. 3876.*

[14] *For example, the Senate Committee on Poverty recommended abolition for family and youth allowances in favour of a comprehensive guaranteed annual income. See* Poverty in Canada, A Report of the Special Senate Committee on Poverty *(Ottawa: 1971), pp. xvi.*

[15] *Canada,* House of Commons Debates, *March 24, 1972, pp. 1142; July 6, 1972 pp. 3854; and July 7, 1972, pp. 3877.* Report of the Royal Commission on the Status of Women in Canada *(Ottawa: 1970), pp. 303.* The Family Income Security Plan, Comments and Recommendations by the Canada Council on Social Development *(Ottawa: 1971).*

[16] *Government of Quebec,* Report of the Royal Commission of Inquiry on Health and Social Welfare *(Quebec: 1971).*

[17] *Canada,* House of Commons Debates, *3rd. Session, 28th. Parliament, Volume VIII, p. 7859.*

[18] *The terms of the formula were outlined by the Prime Minister of Canada in a letter to provincial premiers in March 1972.*

[19] *Hon. C. Castonguay, "Working Paper on Income Security", Interprovincial Conference of Ministers of Rehabilitation and Social Services, Victoria, November 27-28, 1972, p. 12. This proposal was quite similar to the original proposal contained in the Castonguay Report.*

[20] *Communique of the Ministers of Rehabilitation and Social Services, Victoria, B.C., November 28, 1973.*

[21] *Canada,* House of Commons Debates, *January 11, 1973, pp. 197-202.*

[22] *Hon. John White,* Fiscal Policy Management and Tax Sharing Reform, *Meeting of Ministers of Finance, Ottawa, January 1973 (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1973).*

[23] *Hon. John N. Turner,* Budget Speech *(Ottawa: Department of Finance, February 19, 1973), pp. 10 and 16.*

The Canadian Automotive Industry and The 1965 Agreement

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I – INTRODUCTION

The Canadian automotive industry, in the shadow of its much larger counterpart in the U.S., has a very turbulent history. After the industry's early beginnings at the turn of the century, Canada emerged in the 1920's as a major vehicle-producing country. During World War I and in the early 1920's, Canada held second place in world motor vehicle production. During these years Canada's automotive exports, which were destined primarily for the U.S. and the Commonwealth countries, amounted to 35 per cent of its production.

The automotive industry in Canada, essentially an Ontario industry, declined somewhat in the 1930's, but revived again during World War II when over 50 per cent of its production was exported. Up to this point the success of Canada's automotive industry was due basically to its ability to compete effectively in world markets. A basic shift in world automotive production followed World War II. As part of an effort to rebuild secondary industries which were destroyed during the war, nations seeking to establish their own export-oriented automotive industries instituted severe discriminatory actions against North American motor vehicle manufacturers.

Post War Performance

By 1948, the export share of Canadian automotive production had dropped to 18 per cent, and by 1955 it had been further reduced to 4.1 per cent. Not only was the export share dwindling, but the domestic market was faced with increased competition from Europe. Despite a 17.5 per cent tariff, European imports made sizeable inroads into the North American automotive market; from 7 per cent in 1952, their share of this market had increased to 26 per cent in 1961.

In the late 1950's Canada was becoming increasingly anxious to expand its merchandise exports, as there was growing concern that Canada's population was too small to support large, efficient industries. Only by producing for much larger markets, it was believed, could Canada continue to maintain a rising standard of living for its rapidly growing labour force.

Against these developments, as well as the deterioration of the industry's competitiveness vis-a-vis European competition, the automotive industry was singled out by the Canadian Government for special investigation.

The degree of inefficiency in the Canadian automotive industry, as compared with that of its U.S. counterpart, prior to the Automotive Agreement, was reflected in several ways. Firstly, motor vehicle prices at the manufacturers' level in 1960 were over 10 per cent higher in Canada for exactly the same vehicle; secondly, employees were paid 30 per cent less in Canada; thirdly, and most important, the rate of return on invested capital was higher in the U.S. than in Canada. This inefficiency resulted in Canada's importing 162,000 more vehicles in 1960 than it produced. This imbalance meant a total deficit on the automotive account of $528 million, with automotive products representing 10.5 per cent of all merchandise imports, but only 0.1 per cent of all merchandise exports.

The Bladen Report

In 1960, the Canadian Government appointed Professor Dean Bladen as a one-man Royal Commission to examine the nature and prospects of the Canadian automotive industry. After an exhaustive investigation, Dr. Bladen made several important recommendations which were published in April 1961. Although only one of his recommendations was adopted, the Bladen Report was noteworthy for the concept of "extended content." This report laid the groundwork for the Automotive Agreement, which was to be signed four years later.

In 1961, the Canadian Government chose not to adopt the major proposals of the Bladen Report, but instead, in 1962, it introduced a "duty remission" plan, a move which became a most contentious issue in Canada – U.S. trade relations.

Realizing that a potential series of retaliations brought about by the duty remission plan would be wasteful and beneficial to no one, the U.S. and Canadian governments began negotiating in earnest for a solution to the potential trade crisis. These negotiations culminated in the signing of the historic Automotive Agreement in early 1965.

The Automotive Agreement

President Johnson, in a letter to the President of the Senate and the Speaker of the House of Representatives, summed up the situation leading to the signing of the Agreement:

> "The automotive producers of the United States and Canada make up a single great North American industry. The same kinds of cars, using the same parts, are produced on both sides of the border, in many instances in factories only a few miles apart. Over 90 per cent of the automobiles sold in Canada are assembled by firms owned in part or in whole by United States companies. The men and women who work in the plants on both sides of the border are members of the same international union.
>
> Tariffs and other restrictions involving Canada – United States trade in automotive products have been the cause of significant inefficiency in this great industry. Canadian plants produce a great variety of cars, essentially identical with those made in far [illegible]r numbers in the United States. Because the Canadian market is relatively small, production runs have been short, and costs and prices have been high. High costs and prices in turn – supported by the tariff and other restrictions – have contributed to keeping the market small.
>
> Historically, Canada's share in North American automotive production has lagged far behind her share in automotive purchases. In 1963, in an attempt to increase its share of the North American market, the Canadian government put into effect a plan, involving the remission of tariffs, which was designed to stimulate automotive exports. A number of United States manufacturers, believing they would be injured by the plan, called upon this Government to impose countervailing duties. In all probability, such action would have invited retaliation. We were faced by the prospect of a wasteful contest of stroke and counter stroke, harmful to both Canada and the United States, and helpful to neither. Other broader g[illegible] relations with our Canadian friends wo[illegible] have suffered serious strain. To avoid such [illegible] dismal outcome, our two governments bent every effort to find a rational solution to the problem of the divided industry. The Automotive Products Agreement that the Prime Minister and I signed in January is the result of our joint labours.
>
> The agreement will benefit both countries. We will have avoided a serious commercial conflict. Canada will have achieved her objective of increasing her automotive production. United States manufacturers will be able to plan their production to make most efficient use of their plants, whether in Canada or the United States. They will save the price of the tariff, and, over the long run, we will benefit from the faster growth in the Canadian market which lower prices will make possible."

II – PRODUCTIVITY IN THE CANADIAN AUTO INDUSTRY PRIOR TO 1965

One of the fundamental reasons for Can[illegible] entering into the Agreement with the U.S. was to increase the efficiency and productivity of automobile production in Canada. While no rigorous data on productivity are available, there are some measures which indicate the Canadian industry's poor performance compared with that of the United States.

[illegible]e first and most obvious difference, of which all Canadians were aware, was the differential in the price of cars. For most models, manufacturing list prices were over 8 per cent higher in Canada than in the U.S. For some automobiles, such as the Buick Riviera, the price differential was U.S. $1,124 or 30.4 per cent. Secondly, Canadian-made automotive exports to the U.S. were $96.8 million in 1964 or 2.2 per cent of total Canadian exports to the United States. Imports of automotive parts and vehicles, on the other hand, amounted to 13.5 per cent of total imports from the United States.

The third difference relates to the productivity per worker in the automotive industry. In 1963, the value added per Canadian automotive worker was only 69 per cent of that produced by his U.S. counterpart; accordingly, Canadian wage rates averaged about 30 per cent below those for comparable jobs in the U.S.

III – THE AUTOMOTIVE AGREEMENT

The formal Agreement was signed by President [illegible]nson and Prime Minister Pearson on January [illegible], 1965. The intergovernmental Agreement provided for the duty-free movement of most vehicles and original equipment parts. This excluded specialty vehicles, tires, tubes and replacement parts. Provision was made for termination of the Agreement by either party twelve months after notification of the intent to withdraw. It was also agreed that a joint review of the Agreement would be carried out by 1968.

The Agreement specified certain conditions on the duty-free movement across the border, different for the two countries.

The Sole U.S. Condition

The only safeguard provided for the protection of the U.S. industry was that automotive products eligible for duty-free import have at least 50 per cent Canadian content. This was aimed at preventing European firms, who had set up small assembly facilities in Canada, from using Canada as a conduit for the duty-free entry of their automotive products into the United States.

[illegible]anadian Conditions

Canada's conditions were much more restrictive and severe. Firstly, in contrast to the U.S., which in effect permitted free entry of specified vehicles at all levels of the distribution chain – from manufacturer to retailer – Canada limited the right of duty-free importation to authorized manufacturers. To be included in this group, manufacturers needed to ensure that their production-to-sales ratio for each class of vehicle in Canada be at least .75, or that attained in 1964, whichever was greater. Generally, this was intended to assure continued growth of the assembly operation in Canada, in line with the growth of North American vehicle sales in Canada. The main argument for inserting the ratio floor at .75 was to disqualify European or Japanese manufacturers who had or might set up manufacturing in Canada.

The second condition was a requirement that Canadian content in vehicles produced in Canada be maintained at least at the level achieved during the 1964 model year. This was a safeguard intended primarily for the benefit of Canadian parts producers who might be adversely affected in the initial stages of the Agreement. The formal Agreement thus provided for limited free trade in motor vehicles and original equipment parts.

In addition to the Agreement conditions, the vehicle manufacturers were required to submit "letters of undertaking" to the Canadian Government. In these letters, the companies gave written commitments to the Canadian Government which would guarantee a growth of Canadian value added in each year by an amount equal to: 60 per cent of growth of net sales for cars; 50 per cent of the growth in net sales of commercial vehicles sold in Canada; *plus* a total of $260 million by 1968, divided as follows:

	$Million[1]
General Motors	121.0
Ford	74.2
Chrysler	33.0
American	11.2
Others	20.6
Total	$260.0

The Canadian Government would not sign the Agreement without the additional safeguards in the letters of undertaking. It was fearful that the automotive companies would continue to supply the Canadian market from the U.S., and still be able to meet the conditions of the intergovernmental Agreement. Canada wanted additional interim protection for its automotive industry until "it would become efficient enough to motivate the U.S. auto manufacturers to give Canada its 'fair share' of the continental production."[2]

Since the conditions imposed by the United States favoured Canada above other nations, the automotive pact violated the GATT Agreement. A waiver was applied for by the United States, and subsequently granted on December 20, 1965.

IV – THE ANTICIPATED RESULTS

Opposition to the Agreement

While the automotive pact was readily agreed to by the Canadian Government, many in the United States viewed the Agreement as having no beneficial effects to the United States; some vociferous opponents, like Senator Vance Hartke of Indiana, made the following comments:

> "This started out as a rather humiliating thing for the United States to be faced with, in my opinion, but that is all right. We were threatened with unilateral action and then we went ahead and came in with this type of program (the Agreement). But assuming that we forgive and forget what they did, they are going to have a larger percentage of the market and in addition a larger percentage of that market will be Canadian value added. The net result in my opinion can mean only one thing, a reduction in exports from the United States to Canada, and a reduction in jobs in the United States, unless the difference is made up by increased consumption beyond our normal growth pattern."[3]

The doubts held by many U.S. government officials about the economic consequences of the plan were reflected in the slow pace at which the U.S. Government proceeded with implementation of the plan. The Agreement was signed by Prime Minister Pearson and President Johnson on January 16, 1965, but it was not ratified by Congress and the Senate until October 21, 1965.

In Favour of the Agreement

Proponents in Canada and the U.S. argued that the plan was not designed to be one where one country would gain at the expense of another; the overall benefits would not total zero, but in fact both countries would gain. It was predicted that the net surplus of U.S. trade in automotive products with Canada would be slowly reduced from the 1964 figure of $600 million.

Price Differentials
It was also widely believed, though not emphasized, that price differentials between U.S.- and Canadian-made cars would be narrowed. It was anticipated that Canadian manufacturers would increase their rates of return on investment by taking advantage of increased economies of scale brought about through large-scale integration of the North American market.

Economies of Scale
Because of economies of scale already present in the industry in the United States, dislocations there were expected to be minor. On the other hand, in Canada it was recognized that there would be some large-scale disruptions throughout the transitional period, to employees and producers alike, but the end result would be a net gain to Canada as specific safeguards were inserted to guarantee levels of employment and production.[4] The Automotive Adjustment Assistance Program was put into place to ease such adjustments.

V – ACTUAL RESULTS

The Automotive Agreement has been of particular benefit to Canada. All the commitments made by the automotive manufacturers were more than fulfilled. There were, as expected, a number of dislocations in the industry throughout the rationalization process which affected producers and employees alike, but total benefits have far outweighed costs.

Production
i) *Improved Efficiency.* Large efficiency gains were recorded in the Canadian automotive industry. This was shown by a substantial reduction in the number of vehicle lines produced in Canada with the resulting higher volumes for the lines selected for production in Canada.

Table I - Canadian Motor Vehicle Production, 1964-1972
(Thousand units)

Year	Total	Commercial	Passenger Cars
1964	671	111	560
1965	847	140	707
1966	872	188	685
1967	920	211	708
1968	1,150	261	889
1969	1,327	301	1,026
1970	1,194	253	940
1971	1,375	279	1,096
1972	1,474	320	1,155

Source: Statistics Canada, Motor Vehicle Shipments.

ii) *Vehicle Production.* As is shown in Table I, the number of vehicles assembled in Canada more than doubled between 1964 and 1971, with the result that about 74 per cent of total production was exported in 1971, as compared with about 8 per cent in 1964. Table II shows that Canadian exports of passenger cars rose from over 38,000 units to over 885,000 during the same period. The domestic production-to-sales ratio, which was set at a minimum of 1.08:1 – the level for the 1964 model year, grew to 1.86:1 in 1971. Overall vehicle production in Canada advanced at a compound rate of 10.8 per cent between 1964 and 1971, as compared with an annual rate of growth of about 2.0 per cent for the same period in the United States. Similarly, Canadian automobile production, as a percentage of North American production, rose from 6.7 per cent in 1964 to 11.4 per cent in 1971. Accordingly, the second safeguard in the intergovernmental Agreement has been met, with a wide margin to spare.

Table II - Canadian Exports of Passenger Cars
(Thousand units) 1964-1972

Year	Exports	As a Percentage of Production
1964	38.29	6.8
1965	77.88	10.0
1966	138.20	26.8
1967	342.41	48.3
1968	522.02	58.7
1969	714.55	69.6
1970	733.22	78.0
1971	821.55	75.0
1972	885.16	76.7

Source: SC, Motor Vehicle Shipments.
Trade of Canada, Exports.

iii) *Canadian Content.* The third safeguard, which stipulated that Canadian content in Canadian-produced vehicles be maintained at the level obtained in 1964, has also been fulfilled. By 1968, the Canadian content of Canadian vehicle production was about $100 million higher than it was in 1964.[5]

iv) *Canadian Value Added.* The safeguards contained in the letters of undertaking, which guaranteed growth of Canadian value added in each year by an amount equal to 60 per cent of growth of net sales for cars, and 50 per cent of growth of net sales of commercial vehicles, plus a total of $260 million by 1968, were exceeded by $396 million.[6]

Employment
Coincident with a compound rate of growth of 10.8 per cent per annum of Canadian production, and an increase in value added well in excess of the safeguards in the letters of undertaking and the intergovernmental Agreem[illegible] employment in the automotive industry [illegible] Canada grew from 69,300 in 1964 to 100,126 in 1971, at a compound growth rate of 6.3 per cent per annum.

There are three additional statistics which point to increasing efficiency in the Canadian automotive industry. Shipments per production worker in Canada grew from $67,530 in 1964 to $124,890 in 1971 – an increase of 85 per cent. During the same period, value added per manhour grew 54 per cent, and value added per production worker advanced 46 per cent.

Price Differentials
The Canadian consumer has benefited greatly from the automotive pact. Cost savings, made possible by the rationalization, were translated into a decrease in the manufacturer's price differential between similar cars in the U.S. and Canada. In a statement to the House of Commons, on May 11, 1972, Mr. Pepin, then Minister of Industry, Trade and Commerce, stated that the price differential, measured in U.S. dollars in 1965 on a weighted average basis, was over 8 per cent. By 1970, the price differen[illegible] was down to 3.5 per cent, and if the Canadian dollar had remained unchanged at its .925 fixed

rate of exchange with the U.S. dollar, the price differential would have been 2 per cent in 1972.

If the price differential were measured on the basis of the Canadian dollar at parity with the U.S. dollar, the Canadian car would have been, on average, 15 per cent more expensive in 1965 than a similar car in the U.S. By 1970, the gap would have narrowed to 11 per cent, and by 1972, when the Canadian dollar had actually achieved parity, the differential was about 9 per cent.

Either method of measurement, therefore, indicates that the gap narrowed by about 6 percentage points. However, recent arguments have been made that the price spread should be further reduced in view of the appreciation of the Canadian dollar.

Balance of Payments

The single, most visible, Canadian benefit has been the shift in the balance of payments from a large deficit to a small surplus in Canada's favour on the automotive account. Both U.S. and Canadian government officials contended at the time of signing that Canada's deficit on automotive trade would decline gradually below the $600 million deficit recorded in 1964. Since the improvement in Canada's favour was much more rapid than anticipated, [illegible] automotive trade balance has become one [illegible] the most contentious issues in present Canada – U.S. trade negotiations.

In 1964, Canada's automotive exports stood at $97 million, while automotive imports were $699 million, leaving Canada with a deficit of $602 million. By 1970, this deficit had been slowly erased, and a surplus of $202 million was recorded in that year, as Table III indicates.

In 1971 the surplus almost reached the same level as in 1970, but preliminary figures for 1972 indicate a near balance. The above figures are somewhat misleading in that they include trade in snowmobiles, which showed a surplus of $96 million and $64 million in 1971 and 1972 respectively. Therefore, if snowmobile trade is excluded from the automotive statistics, Canada was again in a deficit position with the U.S. last year.

Table III - Canada's Automotive Trade with the U.S., 1964-1972
($ million)

Year	Exports	Imports	Balance
1964	97	699	- 602
1965	246	968	- 722
1966	884	1,535	- 651
1967	1,630	2,109	- 479
1968	2,591	2,923	- 332
1969	3,440	3,511	-71
1970	3,384	3,182	202
1971	4,119	3,925	194
1972	4,624	4,619	6
Total	$21,015	$23,471	- $2,456

Source: External Trade Division, Statistics Canada.

Table IV - New Motor Vehicles Sales in Canada, 1964-1972[1]
(Units)

Year	Total	Commercial	Passenger Cars
1964	725,879	109,120	616,759
1965	830,995	122,279	708,716
1966	827,431	132,611	694,820
1967	815,307	135,872	679,435
1968	889,453	147,538	741,915
1969	917,505	156,702	760,803
1970	774,241	133,881	640,360
1971	940,332	159,570	780,762
1972	1,065,621	206,662	858,959

[1] *Includes vehicles manufactured overseas.*
Source: Statistics Canada, New Motor Vehicle Sales.

VI – REASONS FOR CANADA'S GOOD PERFORMANCE

Forecasting automobile sales is a most difficult task, as public tastes change very rapidly, and [illegible] industry as a whole is subject to significant cyclical swings. Table IV indicates the pattern of new motor vehicle sales in Canada from 1964 to 1972. A critical element in all manufacturers' plans was to ensure that the commitment to the Canadian Government would be met in the event the industry suffered an unpredictable cyclical downturn, as penalties for non-fulfilment of commitment were most severe. Accordingly, wide safety margins were essential for the manufacturers.

Also, any additional plants planned for Canada were to supply the whole North American market. Since the U.S. automotive market is about ten times as large as Canada's, any new Canadian plant additions designed to supply the North American market would have a significant, positive effect on Canadian trade flows.

Surge in Demand for Small Cars

The Ford plant in St. Thomas, Ontario, built to meet the increasing demand for small cars, had exactly this effect on Canada's trading pattern. Manufacturers underestimated the surge in demand for small cars in North America, and thus Canada gained heavily from this forecasting error. If public tastes had changed in favour of larger cars, the manufacturers would indeed have had difficulty in meeting their commitments.

Every analysis of the impact of the Agreement on the U.S. trade balance before 1965 was based on the implicit assumption, that while production costs in Canada would decline, they would remain above those in the U.S. It is this assumption which provided the rationale for some of the safeguards upon which Canada insisted. This assumption has turned out to be invalid.[7] While a comparison of production costs is not publicly available, it can be argued that the automotive manufacturers' decisions to expand in Canada well in excess of their minimum commitments were due in part to a decline in Canadian production costs compared with those in the U.S.

VII – PRESENT STATUS OF THE AGREEMENT

In 1971, the United States recorded a sizeable deficit in its overall merchandise trade balance – the first such deficit this century – and by 1972, the deficit had increased to $6.3 billion. While second quarter figures for 1973 indicate that a surplus has been achieved, prospects for a continued favourable balance in the future are not bright since the United States is becoming increasingly dependent on imports to satisfy its expanding energy requirements. Since the U.S. has seen its previous surplus on the automotive account with Canada eroded in the past three years, it is unsatisfied with the present state of affairs.

Renegotiation of Agreement

The automotive pact has been under renogotiation since 1968, but so far no consensus has been reached for changing the provisions contained therein. The United States contends that the Canadian automotive industry has reached a sufficient degree of maturity so that the safeguards can be eliminated. It argues that the safeguards were originally intended to be of a transitional nature, although this point was not documented in the original Agreement.

Removal of Safeguards

The minimum levels of Canadian production and value added have been exceeded, and thus the safeguards have lost much of their relevance. Therefore, the removal of these safeguards, as demanded by some Congressional leaders on grounds of principle, is not the main stumbling block to a new automotive agreement. The central issue for Canada is the assurance of future growth for the Canadian industry.

Canadian Opposition to a Totally Free Trade Agreement

It has been argued that the United States, by its population, climate and single language, represents a more suitable location for automotive plants than Canada. Also, because of U.S. ownership of the industry most major entrepreneurial, marketing, engineering and purchasing decisions are made in the United States and are, therefore, more susceptible to direct persuasion by the U.S. Government than by the Canadian Government.

For these reasons Canada is opposed to a completely free trade agreement, with no assurance of future Canadian growth. In the words of Mr. Gillespie, the Minister of Industry, Trade and Commerce:

> "The effort of the Government will be to provide for the future expansion of jobs and to secure future job opportunities for Canadians in any changes there may be in the auto pact".[8]

At present, negotiations with the U.S. on the automotive pact are continuing, and it appears that the United States is most forceful about removing the prohibitive 15 per cent tariff Canadian individuals must pay on new cars purchased from dealers in the U.S. However, Mr. Gillespie insists that Canada should not remove this tariff without obtaining the assurance of an adequate share of future growth for the automotive industry for Canada.

VIII – CANADA'S POLICY OPTIONS

A number of alternatives relating to the future of the automotive industry are open to the Canadian Government:

1. Agree to the U.S. suggestions of eliminating all trade barriers between the two countries and letting market forces alone decide where new investment should be made.
2. Retain the status quo.
3. Terminate the Agreement and revert to the situation that existed before 1965, and let each country make unilateral decisions in attempts to improve the competitiveness of its industry.
4. Eliminate the sources of irritation to the United States, but at the same time, develop some form of mechanism to guarantee that Canada will obtain a "fair share" of the North American industry production, investment and employment.

The first option is unacceptable, since Canada would have no assurances whatsoever of future growth for its industry. Given the rising protectionist mood in the United States and its difficulties in reducing balance of payments deficits, there is a strong possibility that U.S. parent companies would be persuaded to favour the location of new plants in the United States. The registration of the automotive companies under the DISC program reinforces this possibility. The second option appears to be resented in the United States, and the third would invite wasteful retaliatory actions by either government and would likely be disastrous for the Canadian industry.

The most suitable option for Canada appears to be the fourth one. The aim of the mechanism should be to limit any potential dislocations in the industry, and guarantee future employment opportunities for Canada's rapidly growing work force. It should also eliminate wide fluctuations in Canada's balance of automotive trade with the U.S.

IX – CONCLUSION

The attainment of a near balance in automotive trade in 1972 has to some extent taken away the force of arguments for urgent changes in the Agreement. In addition, a number of corrosive internal problems in the United States have temporarily shifted emphasis away from the automotive pact.

It is expected that the United States will adopt a somewhat more conciliatory approach to negotiations in the future than it has during the past two years. However, a major threat still looms ahead for Canada: the possibility that the U.S. Senate Finance Committee may amend the President's trade bill, thereby terminating the Agreement, or at least stipulating a time limit for its present conditions.

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[1] *Carl E. Beigie,* The Canada-U.S. Automotive Agreement: An Evaluation *(Montreal: Private Planning Association of Canada, 1970) p. 48.*

[2] Ibid.

[3] *U.S. Senate, Committee on Finance,* Hearings on the Canada-U.S. Automotive Agreement, *89th Congress, 1965.*

[4] *See page 5.*

[5] Beigie, *p. 91.*

[6] Ibid, *p. 92.*

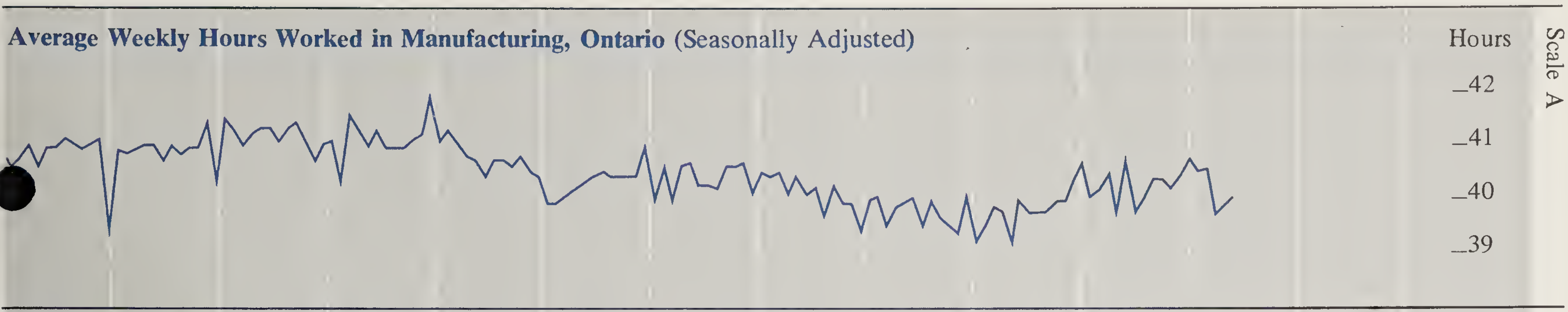
[7] Ibid, *p. 101.*

[8] *Canada,* House of Commons Debates, *March 1, 1973.*

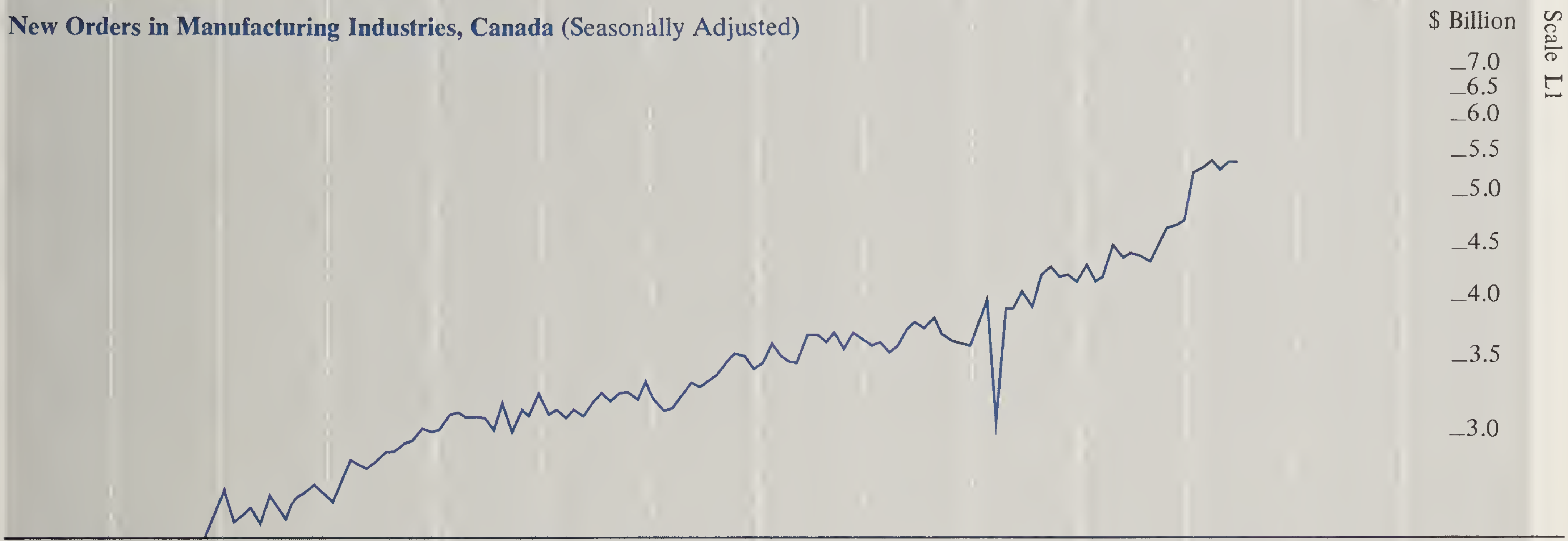
Selected Economic Indicators

Leading Indicators

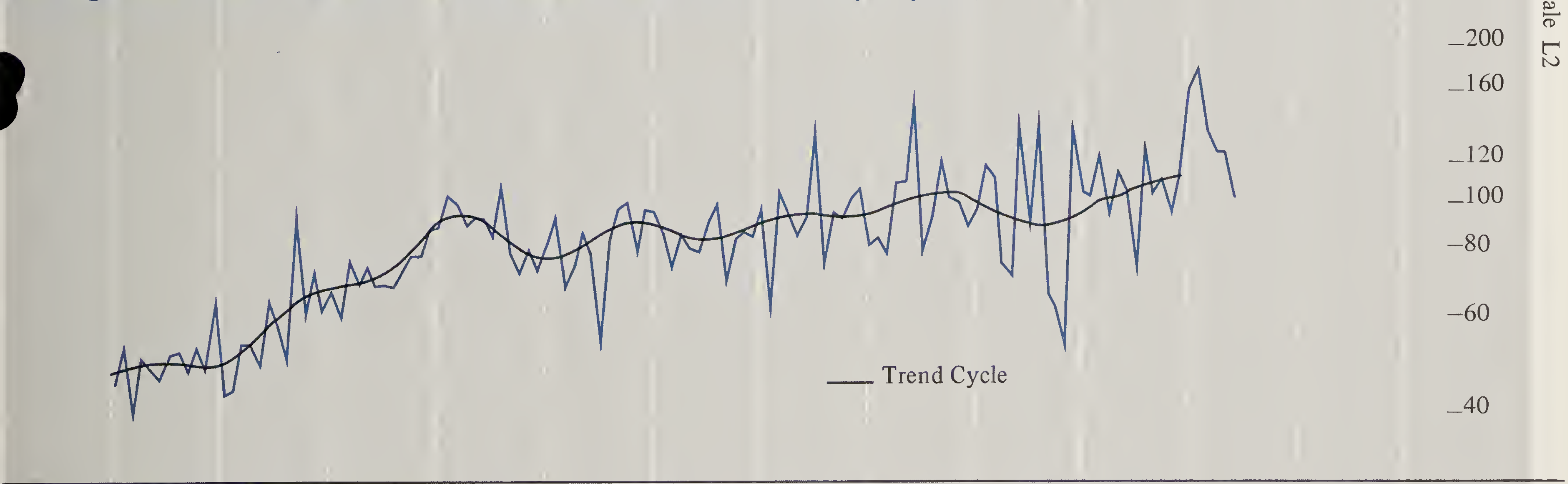
Average Weekly Hours Worked in Manufacturing, Ontario (Seasonally Adjusted)



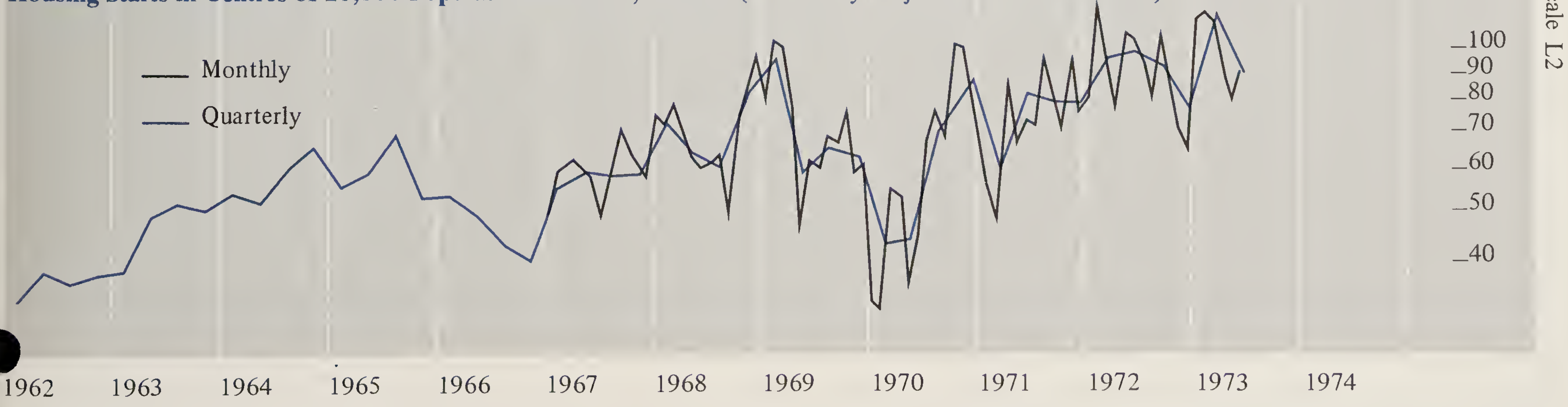
New Orders in Manufacturing Industries, Canada (Seasonally Adjusted)



Building Permits Issued in Ontario, Non Residential Construction (Seasonally Adjusted)

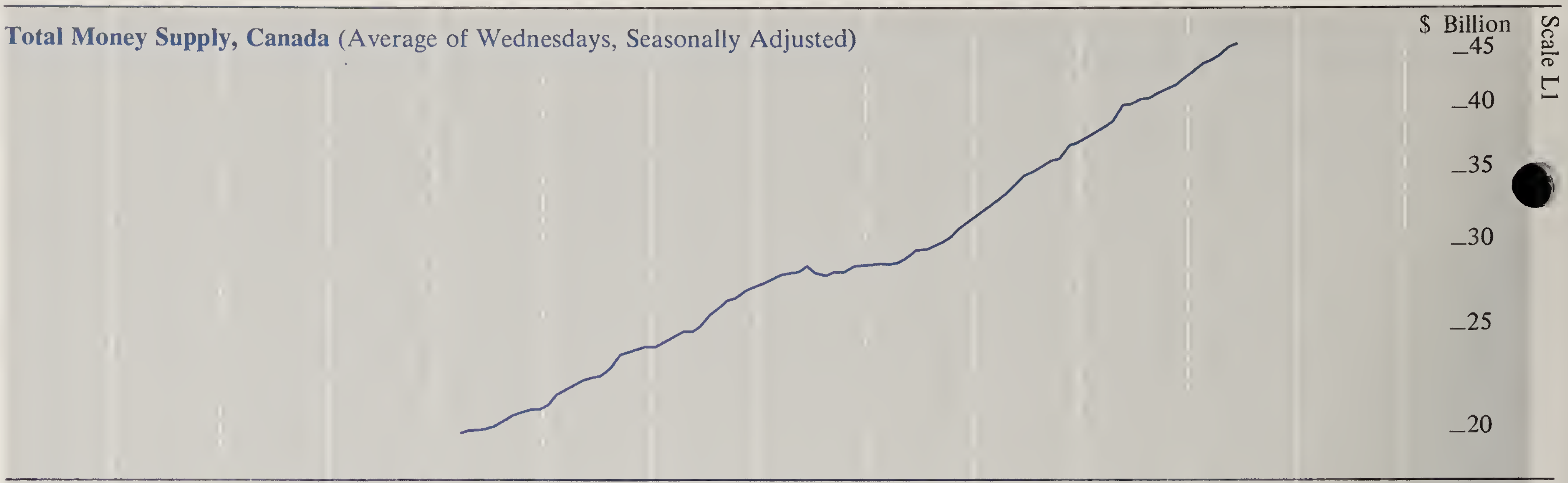


Housing Starts in Centres of 10,000 Population and over, Ontario (Seasonally Adjusted at Annual Rates)

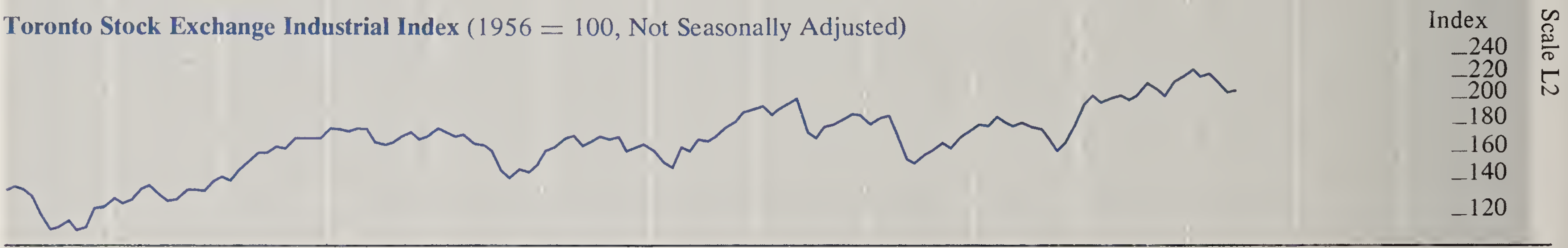


Leading Indicators

Total Money Supply, Canada (Average of Wednesdays, Seasonally Adjusted)

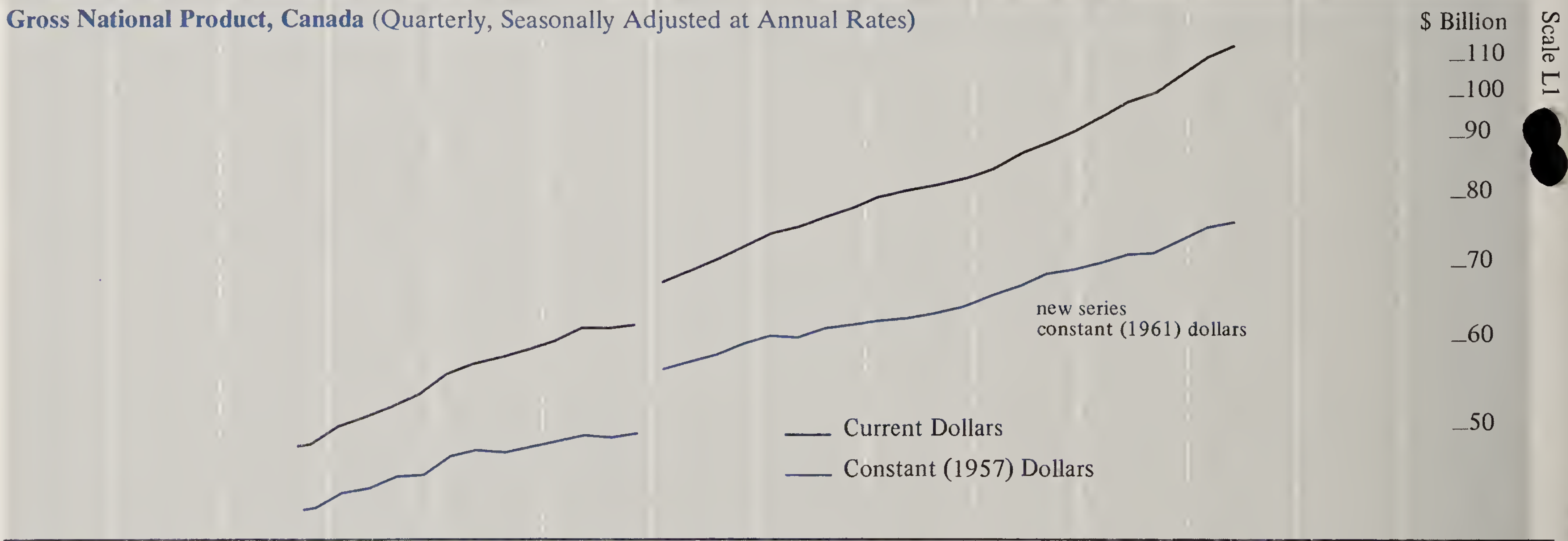


Toronto Stock Exchange Industrial Index (1956 = 100, Not Seasonally Adjusted)

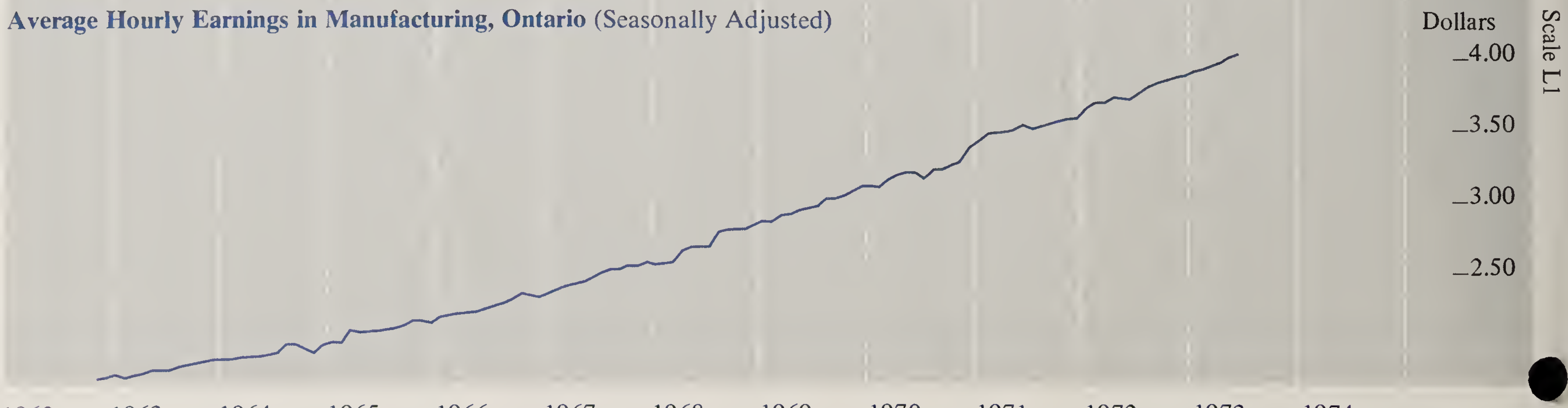


Coincidental and Lagging Indicators

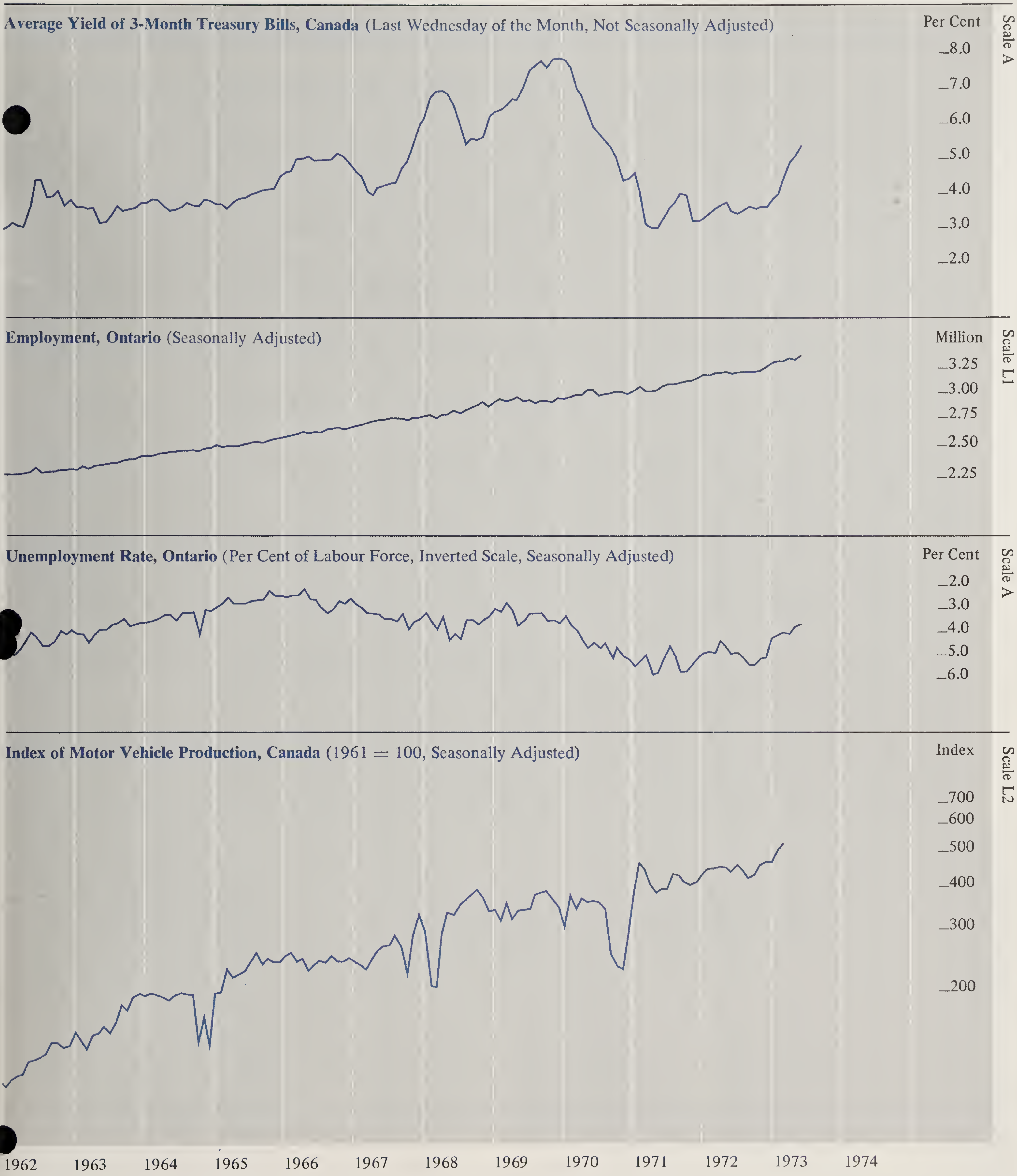
Gross National Product, Canada (Quarterly, Seasonally Adjusted at Annual Rates)



Average Hourly Earnings in Manufacturing, Ontario (Seasonally Adjusted)



Coincidental and Lagging Indicators



Average Yield of 3-Month Treasury Bills, Canada (Last Wednesday of the Month, Not Seasonally Adjusted)

Employment, Ontario (Seasonally Adjusted)

Unemployment Rate, Ontario (Per Cent of Labour Force, Inverted Scale, Seasonally Adjusted)

Index of Motor Vehicle Production, Canada (1961 = 100, Seasonally Adjusted)

Economic Indicators

Seasonally Adjusted

		1972								1973					
		May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Leading Indicators															
Average Weekly Hours Worked in Manufacturing	Number	39.7	40.8	39.8	40.1	40.4	40.4	40.2	40.9	40.8	40.6	40.6	39.9	39.8	40.1
New Orders in Manufacturing Industries[c]	$ Million	4,585.3	4,642.9	4,497.3	4,472.2	4,813.4	4,844.6	4,924.7	5,019.4	5,308.7	5,379.2	5,450.8	5,381.3	5,526.2	5,450.0
Building Permits Issued in Ontario, Non-Residential Construction	$ Million	110.5	99.2	85.6	121.2	107.1	113.4	103.4	122.5	163.0	178.9	136.2	124.9	124.0	102.7
Urban Housing Starts (Annual Rate)	Number	108,600	106,700	97,000	82,700	108,500	91,600	71,800	66,500	116,000	118,200	114,600	91,500	82,300	93,100
Money Supply[c]	$ Million	40,507	40,649	40,862	41,280	41,515	42,028	42,287	42,837	43,554	44,165	44,511	45,038	45,840	46,194
T.S.E. Industrial Index[u]	1956 = 100	204.0	199.7	204.8	214.1	210.8	203.2	215.4	221.6	223.0	220.8	223.8	215.3	205.9	208.4
Business Failures[u]	Number	153	94	84	101	67	100	102	82	77	129	–	92	107	85
Business Failures – Liabilities[u]	$ Million	7.7	4.3	3.9	7.4	4.5	4.1	13.8	3.8	3.9	8.9	–	5.9	8.6	4.9
Coincidental and Lagging Indicators															
Gross National Product[c] (Annual Rate)	$ Million		102,476			104,068			107,804			112,664			115,992
Average Hourly Earnings in Manufacturing	Dollars	3.69	3.68	3.73	3.79	3.82	3.84	3.86	3.86	3.91	3.92	3.96	3.97	40.1	40.6
3-Month Treasury Bill Rate[c,u]	Per Cent	3.73	3.50	3.46	3.50	3.62	3.57	3.68	3.65	3.90	3.99	4.46	4.90	5.18	5.48
Cheques Cashed in Clearing Centres[1]	$ Million	7,409	8,144	8,437	8,751	8,470	8,936	8,449	8,768	9,259	9,108	10,183	9,700	9,703	9,745
Retail Trade	$ Million	1,083	1,081	1,093	1,088	1,098	1,128	1,115	1,107	1,152	1,196	1,185	1,274	1,161.4	1,185.1
Labour Force	000's	3,371	3,370	3,377	3,395	3,408	3,408	3,416	3,441	3,460	3,491	3,473	3,504	3,485	3,532
Employed	000's	3,220	3,207	3.219	3,224	3,227	3,227	3,243	3,269	3,315	3,349	3,336	3,365	3,353	3,404
Unemployed	000's	151	163	158	171	181	181	173	172	145	142	137	139	132	128
Unemployed as % of Labour Force	Per Cent	4.5	4.8	4.7	5.0	5.3	5.3	5.1	5.0	4.2	4.1	3.9	4.0	3.8	3.6
Wages and Salaries	$ Million	1,891	1,909	1,916	1,928	1,948	1,971	1,993	2,016	2,044	2,067	2,088	2,105	2,111	2,125
Index of Industrial Employment	1961 = 100	134.8	134.8	134.4	133.5	134.2	136.1	135.5	134.9	136.9	138.1	139.0	139.8	140.1	140.2
Index of Industrial Production[c]	1961 = 100	192.8	194.0	194.0	192.6	195.4	200.4	202.7	203.9	205.0	212.2	212.3	212.7	212.3	214.6
Total Manufacturing[c]		188.3	190.9	191.6	189.8	191.9	194.3	197.0	199.2	200.8	210.3	210.2	208.9	208.7	210.6
Non-Durables[c]		167.5	172.0	170.4	169.1	171.4	172.7	173.7	175.5	176.2	181.4	179.9	181.9	182.8	184.6
Durables[c]		214.6	214.8	218.5	216.1	217.9	221.5	226.5	229.2	231.9	246.7	248.5	243.0	241.5	243.6
Mining[c]		197.2	189.3	185.3	185.0	192.8	210.9	212.8	207.2	209.8	203.7	207.8	215.9	213.5	213.4
Electric Power and Gas Utilities[c]		224.3	228.2	228.3	227.9	229.2	236.4	236.5	239.0	233.9	242.6	238.1	240.9	241.1	250.4
Primary Energy Demand (Annual Rate)	BKWH	71.74	72.90	73.58	73.16	74.64	76.15	76.56	75.43	74.96	77.83	74.93	75.97	78.52	79.05
Exports (including re-exports)[c]	$ Million	1,666	1,722	1,527	1,637	1,603	1,842	1,890	1,834	1,915	1,957	2,000	2,044	2,023	1,986
Imports[c]	$ Million	1,532	1,535	1,510	1,560	1,554	1,655	1,662	1,686	1,756	1,872	1,895	1,737	1,922	1,878
Unclassified Indicators															
Foreign Exchange Reserves[c,u]	U.S. $ Million	5,210	5,376	5,349	5,358	5,370	5,372	5,191	5,189	5,116	5,203	5,128	5,061	5,013	5,011
Industrial Materials Price Index[c,u]	1935-39 = 100	293.9	295.5	294.9	300.3	303.2	317.4	319.4	324.4	336.7	347.5	352.0			
Consumer Price Index[c,u]	1961 = 100	138.3	138.5	140.2	141.3	141.8	142.0	142.3	143.3	144.5	145.3	145.7	147.3	148.4	149.7
Toronto[u]		133.4	133.9	135.7	135.9	136.6	136.2	136.6	137.7	139.4	139.7	140.1	141.3	142.5	143.6
Ottawa[u]		134.7	134.9	136.1	137.4	137.9	137.6	138.2	139.1	140.2	140.9	141.2	142.5	144.0	145.3
Thunder Bay[u]	1969 = 100	107.1	106.6	107.2	108.4	108.9	108.5	109.1	109.5	110.9	111.2	111.1	112.2	113.2	114.2
Purchasing Power of 1961 Consumer Dollar[c,u]		0.72	0.72	0.71	0.71	0.71	0.70	0.70	0.70	0.69	0.69	0.69	0.68	0.67	0.67

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[c] *Statistics for Canada.*

[u] *Not seasonally [illegible]sted.*

[1] *Ontario less Tor[illegible]to.*

Ontario

Ontario

Ontario Economic Review

July/August 1973
Volume 11, Number 4

Ministry of Treasury, Economics and Intergovernmental Affairs

Hon. John White,
Minister of Treasury, Economics and Intergovernmental Affairs
H. Ian Macdonald, Deputy Minister

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A Long-Term Economic Forecast for Canada and Ontario

Clifford B. Jutlah, *Economist*
Policy Planning Branch

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Hon. John White
Minister of Treasury, Economics
and Intergovernmental Affairs

H. Ian Macdonald
Deputy Minister

The *Ontario Economic Review* is prepared and edited bimonthly in the Economic Analysis Branch of the Office of Economic Policy, Ministry of Treasury, Economics and Intergovernmental Affairs. The review presents articles of interest as well as current information on economic activity in Ontario. Signed articles reflect the opinions of their authors and do not necessarily represent the views of the Ministry.

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About the Review

The July/August edition of the *Ontario Economic Review* features a conditional forecast of the Canadian economy to 1985 and the Ontario economy to 1980. Large-scale econometric models utilizing Statistics Canada data and estimates of the Ministry of Treasury, Economics and Intergovernmental Affairs were employed in projecting on a year-by-year basis the course of variables such as aggregate income and expenditures, labour force, employment, balance of payments items, prices, interest rates, and capital requirements and supplies.

Some of the main preliminary results for the present decade are that Canada's real GNP growth would average just over 5 per cent per year, while Ontario's real GPP growth would average just over 5.5 per cent per year, that Canada's net foreign trade growth would be a primary source of weakness in aggregate demand, that severe inflation, high interest rates, and tight capital markets would prevail, and that Canada's unemployment rate would decline gradually to 4 per cent by 1980.

The forecast was prepared by Dr. Clifford Jutlah in the Policy Planning Branch of the Office of Economic Policy, Ministry of Treasury, Economics and Intergovernmental Affairs.

A Long-Term Economic Forecast for Canada and Ontario

Clifford B. Jutlah, *Economist*
Policy Planning Branch

I – INTRODUCTION

This paper provides the results of a conditional economic forecast for Canada to 1985 and for Ontario to 1980. The forecast is designed to provide a background for policy evaluation and [illegible] assist in producing a consensus on future trends. In this way, it is hoped to develop in a series of forecasts a quantitative foundation against which to test economic policies and alternative environments. The results, therefore, are to be taken as exploratory rather than definitive.

The projections here are based on two econometric models – modified TRACE (from the University of Toronto) and ONFORM[1] (developed by the Ministry of Treasury, Economics and Intergovernmental Affairs). These models have been employed to provide a systematic procedure for obtaining a consistent set of projections for each year for some of the more important indicators of economic activity. The results reported here for Canada are based on the TRACE model, while those for Ontario are obtained from the ONFORM model.

The exogenous variables have been assigned values in their most probable range, and in this sense the present set of results might be considered a "basic forecast". Since the use of formal econometric models considerably facilitates [illegible] examination of alternative scenarios of future economic conditions, numerous experiments were performed to simulate changes in policies and in world economic conditions. The forecast of average growth rates presented here would not be significantly different for small changes in the postulated conditions, though the timing of cycles might be affected. Policies vastly different from those experienced in the past, as well as dramatic changes in economic conditions, constitute separate studies which are being undertaken to examine specific issues. An example of such changes is the Mackenzie Valley Gas Pipeline Project, whose effects are not part of the basic forecast.[2]

The forecast was prepared in early 1973, at which time the *National Income and Expenditure Accounts* containing the preliminary 1972 estimates were available from Statistics Canada. The econometric models were "tuned" to approximate these results and to solve for subsequent years. Rates of increase calculated for 1972 and 1973 and reported here are, therefore, based on the models' solutions for 1972 rather than the actual (or even preliminary) 1972 figures. In general, the discrepancies are sufficiently small to be ignored in the context of a long-term forecast such as this.

II – CRITICAL ASSUMPTIONS

Any view of the future of an economy is conditional upon the framework assumptions that are made in a number of key areas. These areas may be broken down into three broad categories. Firstly, there are demographic and social changes; secondly, government socio-economic policies; and thirdly, international conditions.

1. Demographic and Social Trends

Demographic data to 1985 provide two essential pieces of information:

- *Population* – depending upon migration and fertility and death rates.
- *Labour force* – depending mainly on age distribution of population but, to some extent, on economic circumstances and social trends.

There are clearly some important imponderables here; but based on past trends and on considered opinions as to future attitudes to work, employment, retirement, hours of work, and vacations, the following assumptions have been made:

i) The fertility rate for Canada and Ontario is 2.13 children per woman of child-bearing age.

ii) Immigration to Ontario will amount to 60,000 per year. Of this total, 45,000 will come from abroad and 15,000 from within Canada, each year. Net migration to Canada from abroad is assumed to be 100,000 per year.

iii) The participation rate for the primary population (men 25 to 54 years of age) is assumed to 96 per cent.

iv) The participation rate for the secondary population (men 14 to 24, men 55 to 65, and women 14 to 65) varies over the forecast period. This rate is endogenously determined since it is related to the rate of unemployment and the level of wages.

2. Government Socio-Economic Policies

Government socio–economic policies extend over a very wide range from the fiscal and monetary areas through trade and investment to labour and social welfare. Some of these components are difficult to anticipate fully, but trends and pronouncements may be taken as indicators of the broad shape of developments. Assumptions about some of the major policy instruments which would influence long-term economic activity in Canada are outlined below:

i) Taxation rates in all categories are set at the levels proposed by the 1972 and 1973 federal budgets, and as levied by provincial and municipal authorities during the latter part of 1972.

ii) Government current expenditures on goods and services (total, all levels of government) are projected as a first approximation on the basis of demographic trends and services provided by the public sector. Adjustments were then made on the basis of the resulting overall forecast to deal with the problem of fiscal drag and to produce a new overall forecast.

iii) Government capital expenditures (total, all levels of government) are projected on the basis of trends and capital projects associated with public services.

iv) Government transfer payments (total, all levels of government) consist mainly of transfers to persons and interest payments on the public debt but include minor items, such as subsidies. Transfer payments to persons are first projected on the basis of demographic changes and trends in social policy and then adjusted to take account of forecast economic conditions of inflation and unemployment. Interest on the public debt is assumed to grow at an annual rate of 8 per cent.

v) Ontario Government outlays at both the provincial and municipal levels are assumed to grow at the same rate as all government spending for Canada as a whole. No distinction is made in the ONFORM model between current and capital outlays by the governments at the regional level.

vi) The money supply is assumed to increase by 10 per cent per year starting in 1974. Canadian interest rates are endogenously determined.

vii) Housing policy is represented by the total number of units started each year. No explicit policy measures are implied by this assumption, although there is a general expectation that governments will act on many fronts to meet these projections.

viii) Government investment required to complement resource projects of major magnitude has not been included in the forecast. The Mackenzie Valley Pipeline is a major project, in these terms, and its implications are thus not included in the forecast.

3. International Conditions

International trade conditions could have a significant effect on the Canadian and Ontario economies over the next decade or more. World trade conditions are particularly difficult to predict at this time, and the scenario presented here represents only one of many. Some of the relevant figures employed in this forecast were derived from indications of U.S. forecasters, and some were based on historical projections. International monetary developments in early 1973 were incorporated in the patterns of change in international variables. The most important assumptions about international conditions that have been made in this forecast are:

i) U.S. real GNP will grow by about 5.6 per cent in 1973, just under 4 per cent in 1974-75, close to 5 per cent in 1976-77, and 4 per cent per year thereafter.

ii) The price deflator for U.S. GNP will increase by close to 3.5 per cent per year in the period 1973-75 and slightly less thereafter.

iii) World exports in volume terms will grow by more than 7 per cent per year in the period 1973-75 and by about 6.5 per cent thereafter.

iv) The U.S. dollar price of world exports will increase by close to 4.5 per cent per year to 1975 and by about 3 per cent per year thereafter. The U.S. dollar price of Canadian imports will follow a similar pattern.

v) Yields on U.S. Treasury bills and long-term bonds are set at 5 per cent and 6.1 per cent respectively over the period 1973-85.

III – PATTERNS OF GROWTH

In this section, the forecast behaviour of major aggregates in the Canadian and Ontario economies is described. The broad picture is presented in terms of aggregate output and demand, employment and income, prices, and international transactions.[3] The outlook for Canada as a whole covers not only this decade but also the first half of the 1980's, whereas coverage for Ontario extends to 1980. There are two reasons for this. Firstly, the further one looks into the future, the more obscure it becomes; and while this is true of the factors determining the course of both the national and regional economies, the obscurity at any given future date is more intense at the regional level. Secondly, the data base used in developing the two-region ONFORM econometric model (which determines the distribution of economic activity between Ontario and the Rest of Canada) is somewhat less than adequate to justify forecasting over a rather long period.

Table I – Output and Spending – Canada and Ontario
(Per Cent Average Annual Growth Rates)

	Canada			Ontario	
	1961-70	1971-80	1971-85	1961-70	1971-
GNP, GPP	5.6	5.2	4.9	6.4	5.6
Consumption Expenditures	5.1	5.8	5.3	5.6	6.6
Government Expenditures	5.8	4.8	5.1	5.8	4.8
Business Investment					
Residential	4.9	1.1	0.8	7.1	2.5
Non-Residential	5.0	3.2	2.4	6.5	4.5
Machinery and Equipment	8.8	6.0	6.5	9.9	5.4
Exports	10.7	5.6	5.6	11.2	5.6
Imports	9.3	6.2	6.0	8.0	6.3

Note: Computed from 1961 Constant Dollar Values.

Source: Based on data from Statistics Canada and estimates by the Ministry of Treasury, Economics and Intergovernmental Affairs.

1. Aggregate Output and Demand

Table I shows the growth rates in the main aggregate expenditure variables. Canada's real GNP could increase at an average annual rate of 5.2 per cent in the 1970's, as compared with 5.6 per cent in the 1960's. It may be noted, however, that the 4.9 per cent average for the 1971-85 period is about the same as that for the previous fifteen years. Ontario's real GPP, which recorded a 6.4 per cent average annual growth in the 1960's, will gain 5.6 per cent per year in the 1970's.

It would appear that in the 1960's the main impetus to growth came from business capital expansion and a strengthening foreign trade balance. This was associated with the Auto Pact and a relatively low fixed exchange value for the Canadian dollar. Ontario, with its manufacturing base stimulated by the auto industry, was the major beneficiary in these circumstances. Automotive exports, mainly to the United States, brought the foreign balance to a surplus position as the industry grew exponentially.

In the present decade it seems unlikely that such momentum will persist. Ontario's deceleration would then be reflected in Canada's overall performance. Business capital expansion is expected to moderate in growth, when compa[illegible] with the 1960's; and the foreign balance is seen as exerting some drag on the growth path. Undoubtedly, the currency alignments of late 1971 and early 1973 could enable Canada to make export gains in markets other than that of the United States. But with the growth in exports to the United States decelerating, gains in other markets are unlikely to be so large as to produce the same kind of impact that the Auto Pact made in the 1960's. Table I suggests that, unlike the situation in the 1960's, imports could grow faster than exports in the period 1971-85 – especially in this decade – and that the slower GNP growth in the 1970's is largely attributable to intensified foreign leakage. Counteracting this negative factor to some extent, however, is a somewhat faster growth in consumption spending in the 1970's, relative to the earlier decade. This is due in part to fiscal reform.

The forecasting methodology used for this study does not presume that the economy will follow a smooth full employment growth path. Many of the exogenous variables are assumed to grow at variable rates, and the growth paths of endogenous variables then emerge from the [illegible]nomic system's intricate interdependencies (in

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both a concurrent and a lagged sense). There is no constraint that markets for goods and services and factors be equilibrated in each period. However, the floating exchange rate is used as an equilibrating device for the balance of pay-[illegible]s. Given the possibilities for disequilibrium [illegible]ome of the aggregate markets, adjustments are allowed to work themselves out over time. With variable growth rates in exogenous factors imposed upon such adjustments, the paths of major aggregates exhibit "cyclical growth" over the forecast horizon.

Figure I shows the year-to-year rates of increase in Canada's real GNP and Ontario's real GPP. Strong growth from 1971 to 1974 is expected to give way to a marked slowing down about 1975. The next expansion culminates in about 1978, and the growth cycle troughs in the early 1980's. During the 1970's, Ontario's pattern of growth is likely to be similar to that of Canada. If, in the latter half of the decade, major energy developments occur in Western Canada, Ontario's growth may be closer to Canada's average, but the forecast does not include this factor.

The pattern of private investment in Canada is shown in Figure II. The total number of housing units started each year is assumed to be about 250,000 until 1977, rising to about 262,000 in the early 1980's. These totals are very similar to those projected by the Eco-[illegible]ic Council of Canada.[4] The composition of these totals, as between single and multiple dwelling units, also follows the Council's projections. It should be noted that much of the volatility associated with residential construction has been removed in the projections for this decade. Real residential construction expenditures, which are based upon housing starts, are therefore relatively constant over the forecast period. Real expenditures on non-residential construction and machinery and equipment grow unevenly, but the trend in the construction component is less steep than that in machinery and equipment. The overall result of the phasing in these categories of investment is a slowing down in 1974 and 1975, rapid expansion in the rest of the decade, and contraction in the early 1980's.

On the question of regional disparities, the forecast indicates a faster rate of expansion for Ontario than that for the Rest of Canada. In per capita terms, Ontario's real GPP could rise from the 1970 level of $3,400 to $5,000 by 1980. For Canada as a whole, per capita GNP is expected to increase from $3,000 in 1970 to $4,300 by 1980. Despite DREE and other pub-l[illegible]easures, the income gap will thus widen as the decade closes, but the rate at which Ontario will gain over the rest of the country will be slower than that during the 1960's.

2. Employment and Income

The growth of the Canadian labour force is not exogenously determined in the forecast. As mentioned earlier, the primary labour force is assumed to be about 96 per cent of the primary population (males 25 to 54 years of age)[5], so that growth in this component depends on demographic changes. However, the secondary labour force participation rate is related to economic factors; growth in the secondary labour force thus depends on both demographic changes and economic activity. Figure III shows the forecasts for labour force growth in Canada and Ontario. The relatively high rates of growth recorded in the early 1970's – well over 3.1 per cent for Canada and over 3.5 per cent for Ontario – are expected to decline in the mid-1970's and to settle at about 2.9 per cent by the end of this decade. As Table II shows, the difference between the average growth for the 1970's and that for the 1960's will be fairly small for Canada, but almost nil for Ontario.

Employment growth for both Canada and Ontario could, on the average, be higher in the 1970's than that in the previous decade. Until quite late in this decade, the employment growth rate is likely to exceed the labour force growth rate; but in subsequent years little difference in the rates is expected. The patterns of employment growth are depicted in Figure IV.

With these patterns emerging for the labour force and employment, it is expected that the Canadian unemployment rate will gradually fall to about 4 per cent by 1980, and thereafter fluctuate around this level. For Ontario, a more rapid decline in the unemployment rate in 1973-75 is forecast; and as Figure V shows, from the mid-1970's onwards the rate will vary between 3.3 and 4 per cent. These results for Canada and Ontario are attributable to generally buoyant economic activity as well as a slowing down in the growth of the labour force, after a period of rapid expansion in the early 1970's.

Labour income – wages, salaries, and supplementary income – will grow in nominal terms at an average annual rate of about 11 per cent over the period 1971-85. This is sufficiently rapid to provide for an increase in real wages (using the GNP deflator) of about 3 per cent, per year, per employed person in Canada. Net corporate profits will fluctuate with the swings in activity over the period, but the underlying growth factor will be about 7 per cent per year.

Personal income is forecast to grow at about 10.5 per cent per year in Canada between 1971 and 1985. This is still larger than the growth in disposable income, despite the fiscal reforms implemented in the first few years of the 1970's and the proposed changes for subsequent years. However, the difference between the average growth rate for personal income and that for disposable income is smaller in the 1970's than that in the 1960's – fiscal reform undoubtedly helps to account for this. Using the GNP deflator, one expects real disposable income per person in Canada to grow at a fractionally higher rate in this decade than the 3.5 per cent average annual recorded in the 1960's. In general,

Table II – Labour Force, Employment, and Income – Canada and Ontario
(Per Cent Average Annual Growth Rates)

	Canada			Ontario	
	1961-70	1971-80	1971-85	1961-70	1971-80
Labour Force	3.0	3.1	2.9	3.2	3.2
Employment	3.2	3.3	3.1	3.3	3.4
Personal Income[1]	10.1	10.9	11.1	10.7	11.5
Personal Disposable Income[1]	8.6	10.4	10.5	9.1	10.8

[1] *Computed from current dollar values*

Source: Based on data from Statistics Canada and estimates by the Ministry of Treasury, Economics and Intergovernmental Affairs.

Fig. 1

Percentage Annual Growth of Gross National Product and Ontario Gross Provincial Product in 1961 dollars

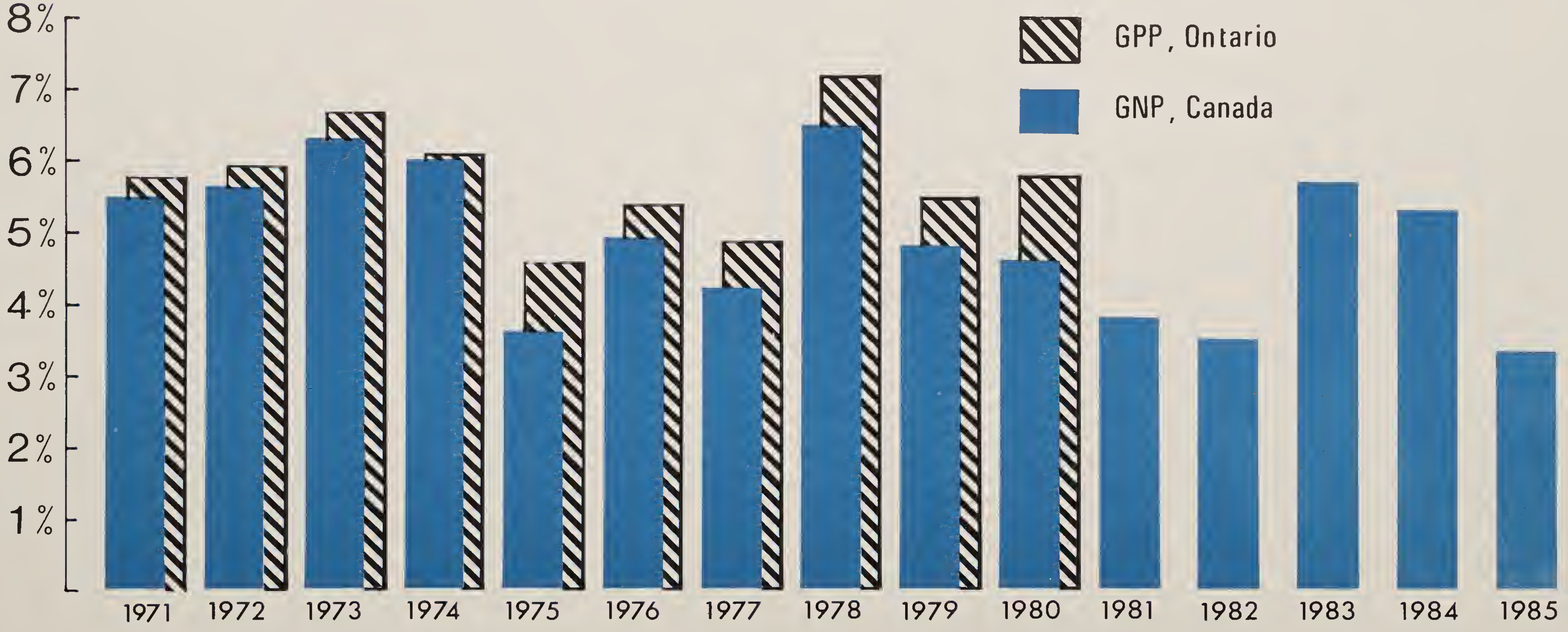


Fig. II

GROSS PRIVATE FIXED INVESTMENT IN CANADA IN 1961 DOLLARS

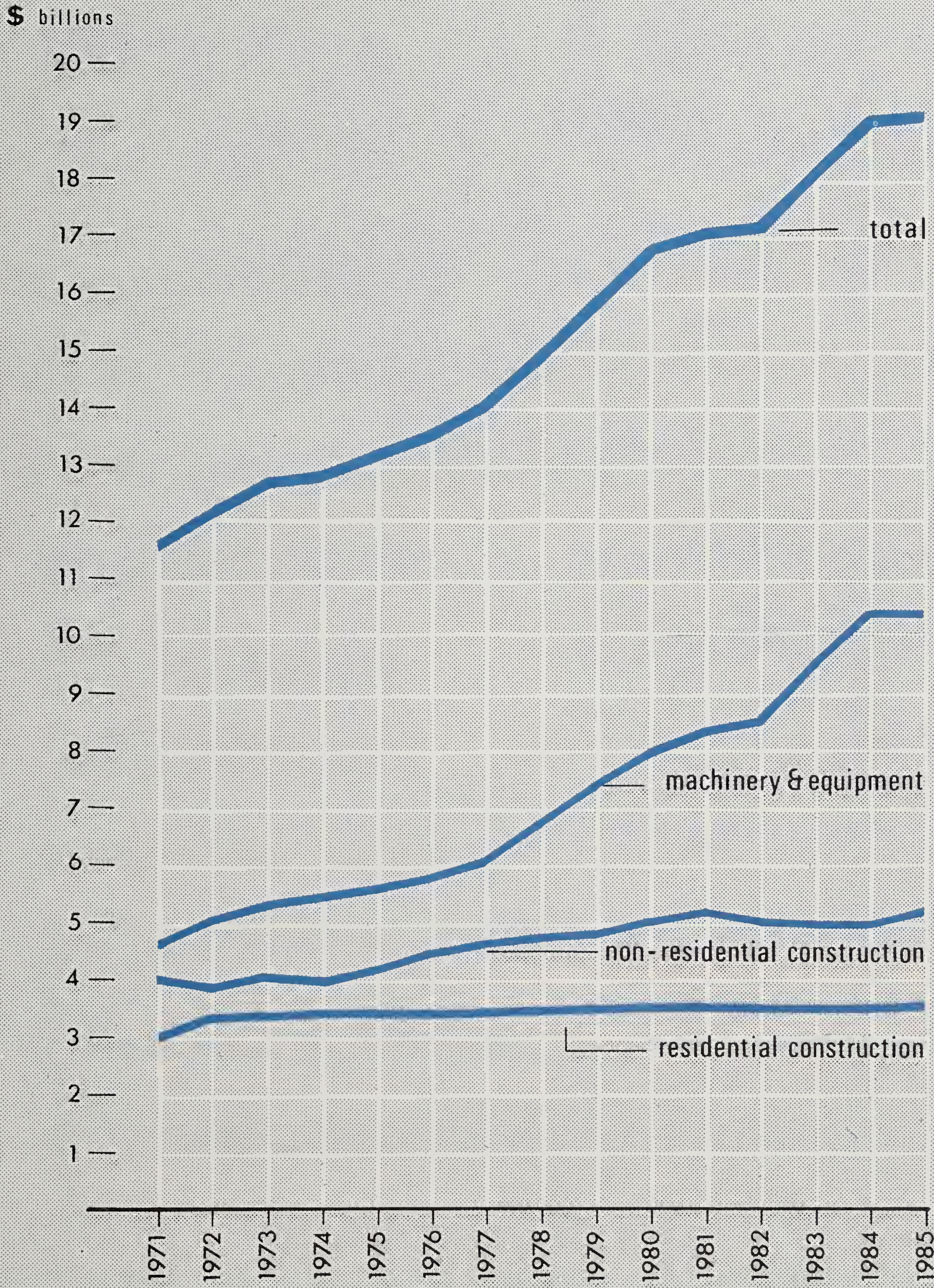


Fig. III

Percentage Annual Growth of Labour Force in Ontario and Canada

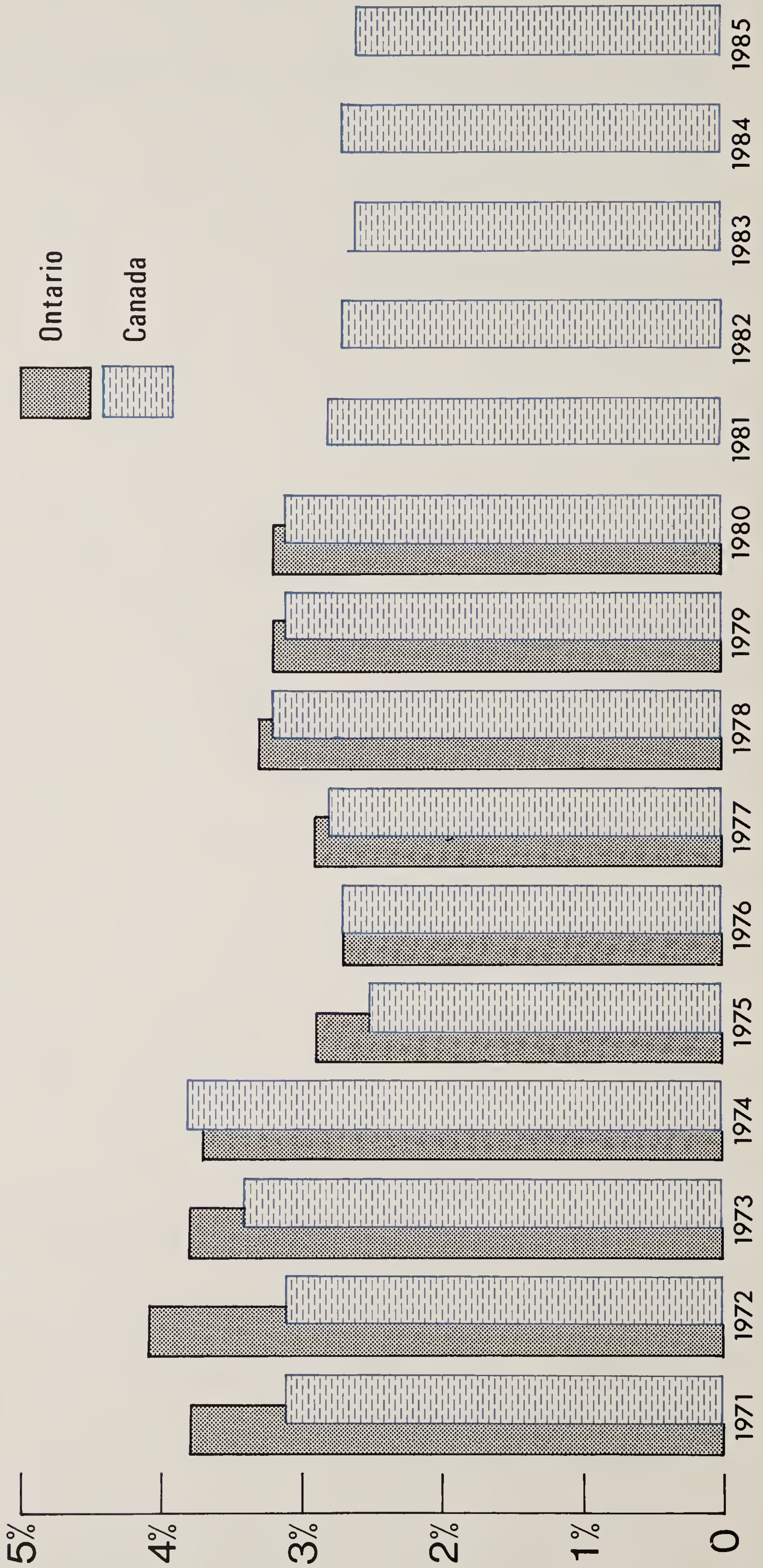


Fig. IV

Percentage Annual Growth of Employment, Ontario and Canada

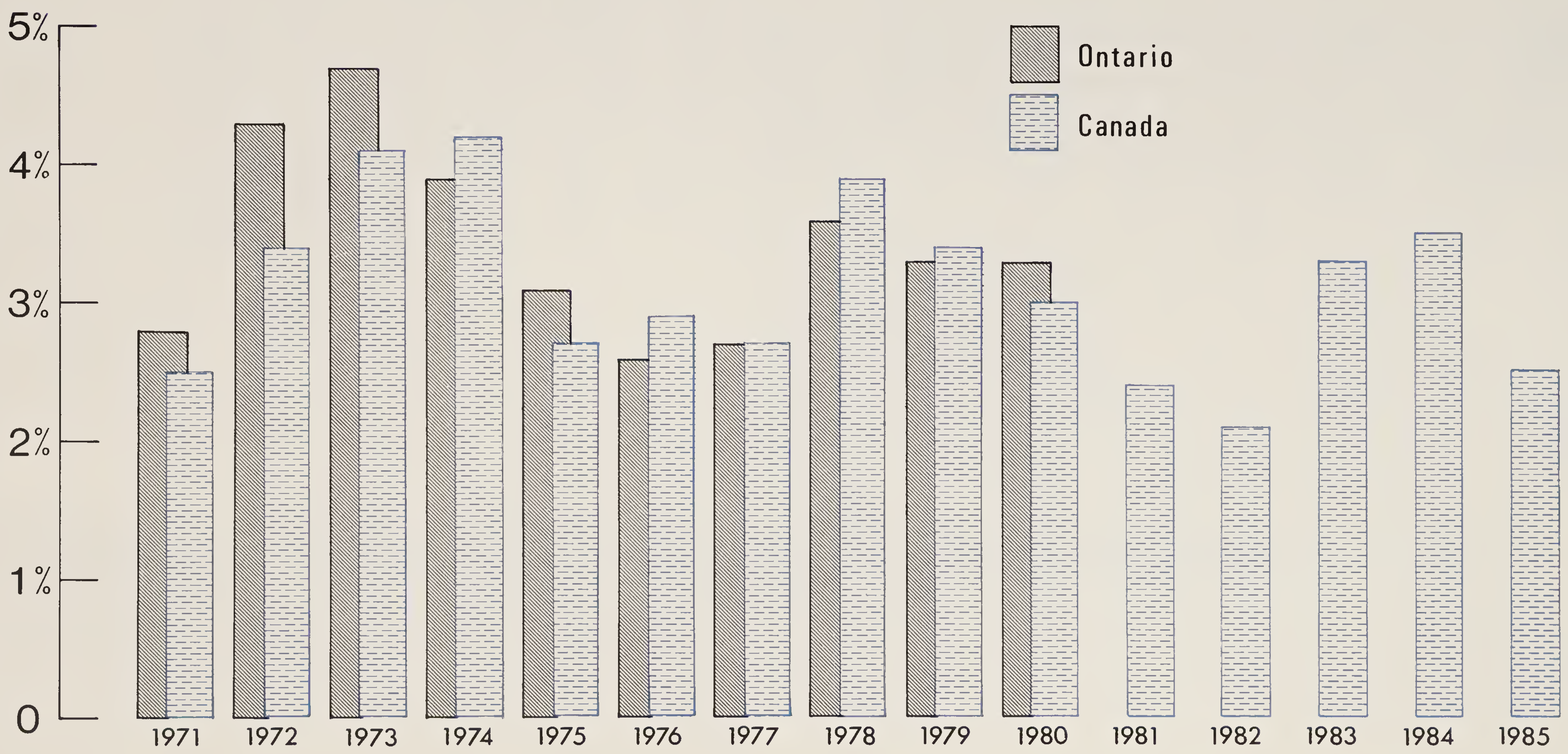
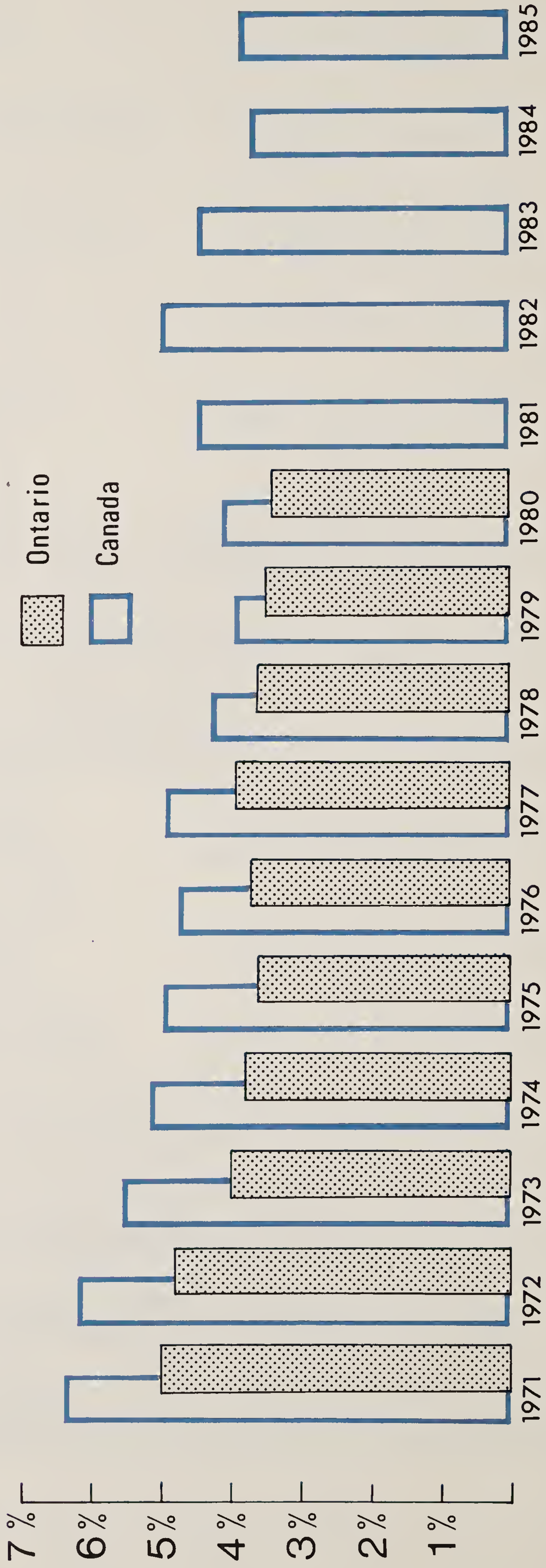


Fig. V

PERCENT OF LABOUR FORCE UNEMPLOYED, CANADA AND ONTARIO



income growth in Ontario could be slightly higher than overall growth in Canada, but cyclical patterns are expected to be much the same.

Figure VI shows for selected years the disposition of personal income in Canada. Over [illegible] long term, the portion absorbed in taxes [illegible]ld rise from about 19 per cent in the first half of the 1970's to close to 23 per cent by the mid-1980's. This would be mainly at the expense of consumption spending, whose share is likely to decline from about 76 per cent in 1970 to about 72 per cent by 1985.

Table IV — Balance of Payments — Selected Items (Billions of dollars)

Year	Merchandise Balance	Services Balance	Current Account Balance (including Transfers)	Net Long-Term Capital Inflow
1960	–.15	.96	–1.23	.93
1965	.12	–1.28	–1.13	.86
1970	2.91	–2.02	1.04	.74
1975	1.01	–3.27	–1.93	2.13
1980	1.97	–5.48	–3.04	3.55
1985	3.59	–8.24	–4.03	4.63

Source: Based on data from Statistics Canada and estimates by the Ministry of Treasury, Economics and Intergovernmental Affairs.

3. Prices

Table III summarizes the price aspects of the forecast. In general, higher rates of inflation are forseen in this decade than those experienced in the last decade. And this prospect stands out more than any other in the aggregate picture. Two factors of fundamental importance to this result are the recent international monetary adjustments and a relatively high utilization of production capacity at home. Depreciation of the Canadian and U.S. currencies, vis-à-vis major world currencies from 1971 to 1973, will have lagged effects for quite some time as prices of imports into Canada adjust upwards. Domestic factors, however, appear to contribute more than international factors to the inflationary outcome. Activity in which domestic content predominates — residential and non-residential construction, government purchases, and spending on consumer non-durables and services — is forecast to show the most rapid rates of price increase. The course for the rate of unemployment suggests that the economy could operate fairly close to capacity for a large part of the period, with expected bottlenecks and shortages. This will be especially true in the case of construction activity, where the supply of skilled manpower is not entirely elastic. The price deflator for GNP is forecast to rise at a 4.9 per cent average annual rate to 1980, and slightly more slowly thereafter. The time pattern of change in this index is portrayed in Figure VII.

Table III — Implicit Price Indices — Canada (Per Cent Average Annual Rates of Change)

	1961-70	1971-80	1971-85
GNP	3.4	4.9	4.8
Consumption — Durables	1.3	2.1	2.0
— Other	3.1	4.4	4.6
Residential Construction	4.1	8.9	9.5
Non-Residential Construction	3.9	6.9	7.2
Machinery and Equipment	2.4	3.6	3.6
Imports	2.0	3.6	3.5
Exports	2.1	3.7	3.7
Government Expenditure — Current	5.7	5.4	5.3
— Capital	3.4	3.9	3.9

[illegible]urce: Based on data from Statistics Canada and estimates by the Ministry of Treasury, Economics and Intergovernmental Affairs.

4. International Transactions

Total exports of goods and services from Canada can be expected to grow in real terms at an average annual rate of 5.6 per cent between 1971 and 1985, with the merchandise component somewhat more buoyant than the services component. On the other hand, total imports of goods and services into Canada could grow in real terms at an average annual rate of 6 per cent over the same period, with merchandise imports growing slightly more slowly than service imports.

Import prices are likely to follow a similar pattern as export prices over most of the forecast period, with rates of increase fluctuating between 2.5 and 5.5 per cent per year. During 1973-76, however, the rate of increase in import prices could average close to 4.5 per cent per year; while export prices could increase at just under 4 per cent per year. These results in the near future reflect in large measure the recent currency realignments.

Table IV shows selected items in Canada's Balance of Payments for certain years. The merchandise surplus is forecast to fall during the mid-1970's; thereafter, to rise steadily. However, the services deficit increases steadily over the forecast period, with the net result that the

Fig. VI

DISTRIBUTION OF PERSONAL INCOME IN CURRENT DOLLARS FOR CANADA

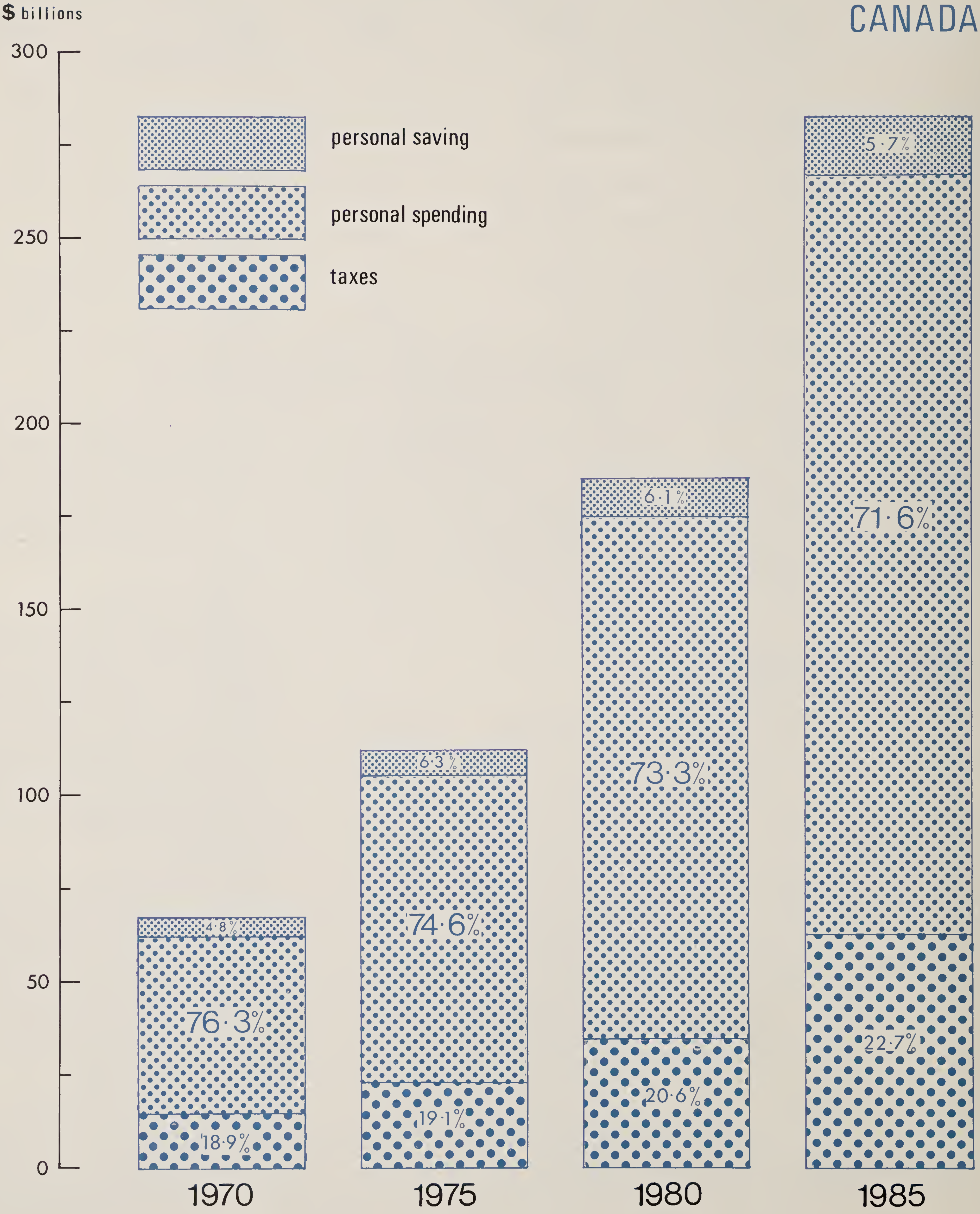
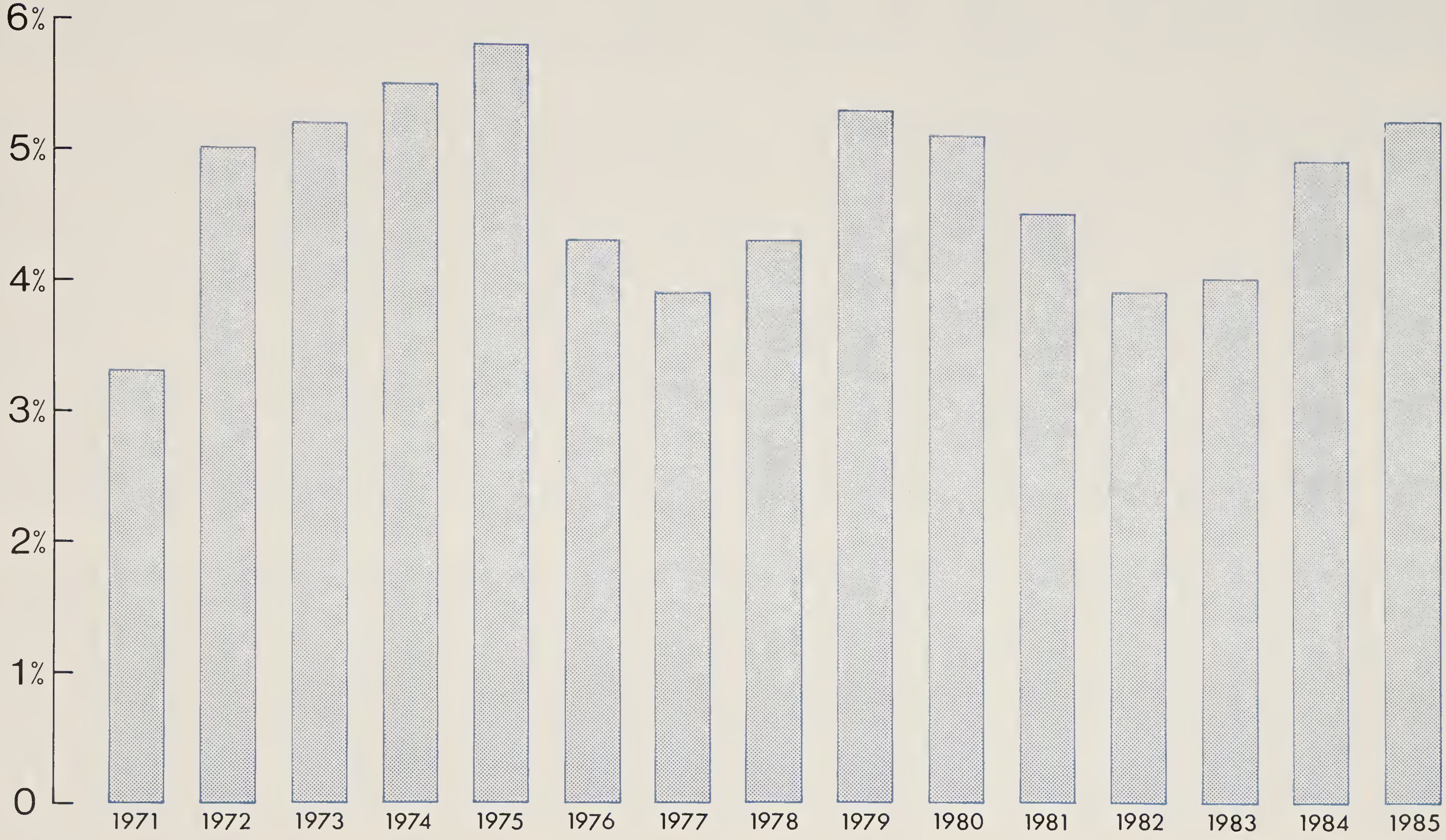


Fig. VII

Percentage Annual Change in Prices (GNP deflator), Canada



current account deficit increases to about $4 billion by 1985. The current account balance – as a proportion of GNP – rose from -3.2 per cent in 1960 to a maximum of 1.2 per cent in 1970, but it will fall in the forecast period and settle at about -1.3 per cent from the mid-1970's onwards.

Long-term net capital inflows will be more than sufficient to offset the current account deficit, but increasing net short-term outflows characterize most of the period.

If, as is assumed, the Canadian dollar is allowed to float freely, its value in relation to the U.S. dollar could gradually decline to a 5 per cent discount by 1980; thereafter, it is likely to fluctuate between a 2.5 and 5.5 per cent discount.

IV – THE GOVERNMENT SECTOR

For the purpose of the forecast, the activity of all levels of government in Canada is represented in several dimensions. Through the annual budget in the National Accounts framework, governments are viewed as providers of goods and services, employers of resources, and policy makers capable of regulating the economy in active and reactive ways. Also, through the Cash Budget and monetary policy, the financial implications of government activity are derived. The treatment of the major features of the government sector from the National Accounts viewpoint are briefly described in this section, and the financial aspects are discussed in the next section on Capital Markets.

1. Government Expenditures

For projection purposes, spending by all levels of government on goods and services is disaggregated according to the economic functions provided by the public sector. Essentially, these are transportation and communications, health, social welfare, education, and all others combined.

Based on demographic changes, past trends, and anticipated developments, these functions will vary in emphasis over the period to 1985. The pressure for urbanization is expected to result in a 15 per cent annual rate of growth in spending on transportation and communications, while population demands for health and welfare services will lead to a 15 to 18 per cent annual rate of growth in spending in these areas. On the other hand, with the education infrastructure developed in the late 1960's and with a declining proportion of the population in the school-age group, spending on education could grow by less than 10 per cent per year in the forecast period. Consequently, as shown in Table V, the proportion of government expenditure on goods and services allocated to transportation and communications, health and welfare will increase at the expense of education, defence, and public administration.

**Table V – Estimated Percentage Distribution of Government Expenditures[1]
on Goods and Services
(Averaged over three-year periods)**

	1963-65	1968-70	1973-75	1978-80	1983-
Transportation and Communications	21.0	15.4	16.8	20.0	22.0
Health and Social Welfare	6.6	9.0	12.7	15.6	17.4
Education	15.3	28.0	24.0	21.6	21.0
Other[2]	57.1	47.6	46.5	42.8	39.6

[1] *All levels of government combined.*

[2] *Includes defence, security, public administration, and some smaller items.*

Source: *Based on data from Statistics Canada and estimates by the Ministry of Treasury, Economics and Intergovernmental Affairs.*

Looking at government expenditures on goods and services from another angle, one can expect the growth in current spending to moderate from the 13 per cent per year established in the early 1970's to about 10 per cent per year in the remainder of the decade and to exceed 10 per cent in the 1980's. Capital spending, however, which expanded sharply between 1971 and 1973 as a stimulative device, is projected to follow a more normal 9 per cent annual growth path from the mid-1970's onwards.

Apart from spending on goods and services, governments make interest payments on the public debt and operate programs mainly in the health, education, labour, and social welfare areas, which involve transfer payments to persons. Excluding interest on the debt, transfers grew at varying rates (between 15 and 20 per cent annually) in the period 1967-72. This arose from changes in the health and welfare programs and unemployment benefits structure, and from increasing unemployment and an ageing population. In the years ahead, with a better employment performance and some expansion in the social security area, transfers will increase at rates between 10 and 12 per cent annually. The Old Age Assistance component is projected to grow by 12 to 16 per cent annually as the proportion of beneficiaries continues to increase, and built-in adjustments for inflation take place.

It is assumed that in order to provide the community with various economic and social services, direct employment by governments will grow by just over 5 per cent per year, and that the wage bill for governments will increase by about 11.5 per cent per year in the forecast period.

2. Government Revenues

The main sources of government revenues [illegible] personal income taxes and other direct taxes paid by persons, corporate income taxes, indirect taxes, and investment income. Minor sources include withholding taxes and levies, such as health care premiums.

In forecasting revenues, it is assumed that tax rates would prevail in accordance with recent tax reform proposals and federal budgetary changes. Hence higher levels of deductions and lower tax rates for certain taxpayers as well as corporations are incorporated in future tax yields. Also, from 1974 onwards, indexing of personal income taxes is assumed.

In the personal income tax field, it is estimated that the ratio of assessed income to personal income will rise from its present level of 78 per cent to 83 per cent in 1985, while the ratio of taxable income to personal income will rise from the present 50 per cent to 60 per cent in 1985. Despite indexing (which partially offsets inflationary effects on revenues), growth in personal income combined with shifts in the distribution of income under a progressive tax rate structure will generate revenue growth averaging over 12 per cent per year between 1973 and 1985. Other personal direct ta[illegible] such as contributions to government pension funds, will grow by about 11 per cent per year.

Corporate income taxes are forecast to fluctuate greatly in the forecast period as the profit base varies over the cycle. Lower tax rates over the next few years, combined with the assumed continuation of the recent accelerated depreciation measures, could slow down the growth in revenue from this source.

Given the forecast for inflation, indirect taxes, based largely on expenditures on consumption, investment, and imports, will grow by about 10 per cent per year, with a cyclical pattern imposed by these spending components. Investment income from the various government funds will increase by 9.5 to 10.5 per cent per year over the period.

Because of these different growth patterns in the revenue components, the share of personal direct taxes in total revenues will increase from about 38 per cent at the start of this decade to about 46 per cent by 1985, while the share of indirect taxes will be relatively constant at 37 per cent, and corporate taxes will decline in significance.

3. The Surplus-Deficit Position

Table VI shows for selected years the relationship between the Gross National Product and the combined budget of all governments in the National Accounts framework.

Over the long term, the ratio of government spending to GNP is seen to rise slightly, after attaining a plateau in this decade. Revenue growth is curbed by recent and proposed tax policy during 1972-74; thereafter, revenue will grow faster than GNP, and the deficits of the early 1970's created by discretionary fiscal policy disappear in the mid-1970's.

Despite indexing of personal income taxes, there still exists a strong tendency for fiscal drag in the economy. In this forecast it is assumed that government will react with discretionary measures to deal with potentially large surpluses occurring from 1977 onwards. Of the variety of measures possible, it is assumed that spending on goods and services will be increased, and that transfer payments to persons will be raised in an effort to return some of the fiscal dividend to the private economy. The effects of these measures are reflected in a rather balanced relationship between the budget and GNP over the forecast horizon.

Table VI – Government Budget in Relation to GNP

	1970	1971	1975	1980	1985
			(Per Cent)		
Spending on Goods and Services	23.1	23.7	23.4	23.3	24.8
Current Expenditures	19.4	19.7	19.9	20.0	21.4
Capital Expenditures	3.7	4.0	3.5	3.3	3.4
Transfer Payments	13.2	14.0	14.3	13.9	14.6
Transfers to Persons	8.1	8.9	9.7	9.9	11.0
Interest on Debt	3.8	3.8	3.6	3.3	3.2
Other	1.3	1.3	1.0	.8	.4
TOTAL GOVERNMENT EXPENDITURE	36.3	37.7	37.7	37.2	39.5
Revenues					
Personal Direct Taxes	13.5	13.9	14.3	15.5	17.4
Corporate Income Tax	3.6	3.7	3.0	2.5	2.0
Indirect Taxes	14.1	14.0	14.0	14.0	13.8
Other	4.7	4.7	4.5	4.4	4.4
TOTAL GOVERNMENT REVENUES	35.9	36.3	35.8	36.4	37.6
Government Capital Consumption Allowances	1.4	1.3	1.3	1.4	1.5
Surplus(+) or Deficit (–)[1]	1.0	.1	–.6	.6	–.4

[1] *The Surplus is the positive difference between the Total of Revenues and Capital Consumption Allowances and Total Government Expenditure.*

Source: Based on data from Statistics Canada and estimates by the Ministry of Treasury, Economics and Intergovernmental Affairs.

V – CAPITAL MARKETS

In this section, certain aspects of the financing of Canada's economic activity to 1985 are considered. Under general conditions of monetary policy set by the Bank of Canada, the capital markets serve in the process of allocating funds between borrowers and lenders and provide for liquidity of non-monetary financial assets. As part of the economic forecast, the financial picture is summarized in terms of Canada's overall capital requirements and the availability of domestic savings, interest rates, governments' financial positions, the financing of private business investment, and mortgage financing.

1. Aggregate Investment and Saving

Gross Capital Formation in Canada could grow in nominal terms at an average annual rate of about 9 per cent to 1985. Such growth, however, will take place with fluctuations not unlike those of the past. These fluctuations will reflect essentially the variations in real investment (shown in Figure II) as prices seem to move steadily upwards. Government capital formation, which is assumed to grow by about 9 per cent over most of the period, and residential construction, which is based on the expected number of housing units started, are projected to follow smoother trends than those of the past.

Spending by business on plant and equipment and inventories, however, will exhibit historical volatility. This is because the equations used for predictions of real investment incorporate the past behaviour of the utility and resource sectors (as well as manufacturing and services), and foreseeable expansion patterns in power plants, transportation, and resource development are well within our realm of experience. As mentioned earlier, the one major exception is the Mackenzie Valley Gas Pipeline Project, whose effects are excluded from the forecast.

Gross public and private investment in housing, plant and equipment, and inventories will total $127 billion between 1971 and 1975, $195 billion between 1976 and 1980, and $307 billion between 1981 and 1985. Table VII shows the breakdown of these totals between the public and private sectors, and among the various categories of investment. It does not seem that the public share will change significantly in relation to the private share of fixed investment.

Table VII – Gross Investment and Saving in Canada
(Billions of Current Dollars)

	1966-70	1971-75	1976-80	1981-85
Government Gross Fixed Investment	15	21	32	49
Private Gross Fixed Investment	67	100	158	249
Residential Construction	16	29	45	70
Non-Residential Construction	24	34	55	84
Machinery and Equipment	27	37	58	95
Total Gross Fixed Investment	82	121	190	298
Inventory Change	3	6	5	9
Total Gross Investment	85	127	195	307
Gross Domestic Saving	83	120	183	289
Foreign Saving	2	7	12	18

Source: Based on data from Statistics Canada and estimates by the Ministry of Treasury, Economics and Intergovernmental Affairs.

Gross Domestic Saving in Canada could amount to $120 billion in the period 1971-75, $183 billion in the period 1976-80, and $289 billion in the final five years of the forecast. Most of the saving is likely to come from capital consumption allowances, whose share could rise from 53 per cent in the early 1970's to 60 per cent by the mid-1980's. Personal saving will account for a relatively constant 24 per cent of domestic saving. The remaining proportion (attributable to undistributed corporate profits and government saving) will fluctuate downwards.

Canada's domestic saving could thus fall short of its investment requirements over the forecast period and the country could be a net user of foreign resources. Net new inflows of foreign capital in the form of long-term debt and equity investment in the Balance of Payments are forecast to represent 5.5 to 6 per cent of Canada's gross investment needs.

2. Interest Rates

The forecast assumes that the Canadian money supply (currency and bank deposits held by the public) will grow at a 10 per cent average annual rate from 1974 onwards – a marked slowing down from the recent past. International monetary conditions are represented in the forecast by exogenous U.S. interest rates and a weighted average value of major foreign currencies vis-à-vis the U.S. dollar. Canadian interest rates and exchange rate in relation to the U.S. dollar are endogenously determined by both domestic and foreign influences.

In general, the forecast period is characterized by high interest rates in Canada. The average rate on long-term (over ten years) Government of Canada bonds will be between 7.75 and 8 per cent until the mid-1970's; thereafter, it will fluctuate downwards to about 7.25 per cent in the early 1980's. The Government of Canada three-month Treasury Bill rate will follow a similar pattern as the long rate, with the former being about 200 basis points below the latter throughout most of the period.

In the absence of major currency crises in the years ahead, it is expected that a more normal historical relation between Canadian and U.S. interest rates will be obtained. The Canadian Government bill and long bond rates will be higher than their U.S. counterparts, with a differential of 50 to 100 basis points in bill rates, and 100 to 150 basis points in long bonds occurring in most of the period. These relationships are shown in Figure VIII.

Inflation on an international scale is likely to be quite severe until the mid-1970's as countries attempt to adjust to the major exchange rate changes of the recent past. One of the most obvious forms of the adjustment process is the speculative conversion of excess U.S. dollars into real commodities. It will take some years for these effects to work themselves out, and Canada, with such an open economy, cannot entirely escape the consequences. Furthermore, in Canada, the pressures of urbanization and supply inelasticities could contribute to inflation in the goods and services not internationally traded, for example, housing.

Under such conditions we can expect the high inflation factor forecast for Canada – over 5 per cent per year to 1975 and between 4 and 5 per cent in most other years in the GNP price deflator – to be built into interest rates. In other words, the level and pattern of interest rates will reflect considerably the inflationary environment.

Long-term borrowers issuing fixed int[illegible] obligations could in future experience consi[illegible]able difficulty in raising funds as lenders attempt to hedge against inflation. Provinces, municipalities, and corporations could be in strong competition for whatever long-term funds are available. Mortgage funds, though on a renewable five-year basis for housing, could command higher interest rates than those in the 1960's as the whole structure of rates is elevated above historical levels.

It may be possible to alleviate some of the problems of cost and availability of funds in Canada's capital markets through faster growth in the money supply. However, such generalized monetary policy seems to be losing its effectiveness in controlling interest rates. Furthermore, if such a policy could lower rates in the short end of the market, it would engender more inflation which would be built into long rates. Long-term borrowers would face an even more difficult situation. Monetary policy in the years ahead will probably have to assume more selective forms through moral suasion or new legislative powers in assisting the capital markets in allocating funds according to policy goals. Alternatively, public institutions, suc[illegible] the Central Mortgage and Housing Corporation and the former Industrial Development Bank, may be used more vigorously to meet the specific needs of housing and small businesses.

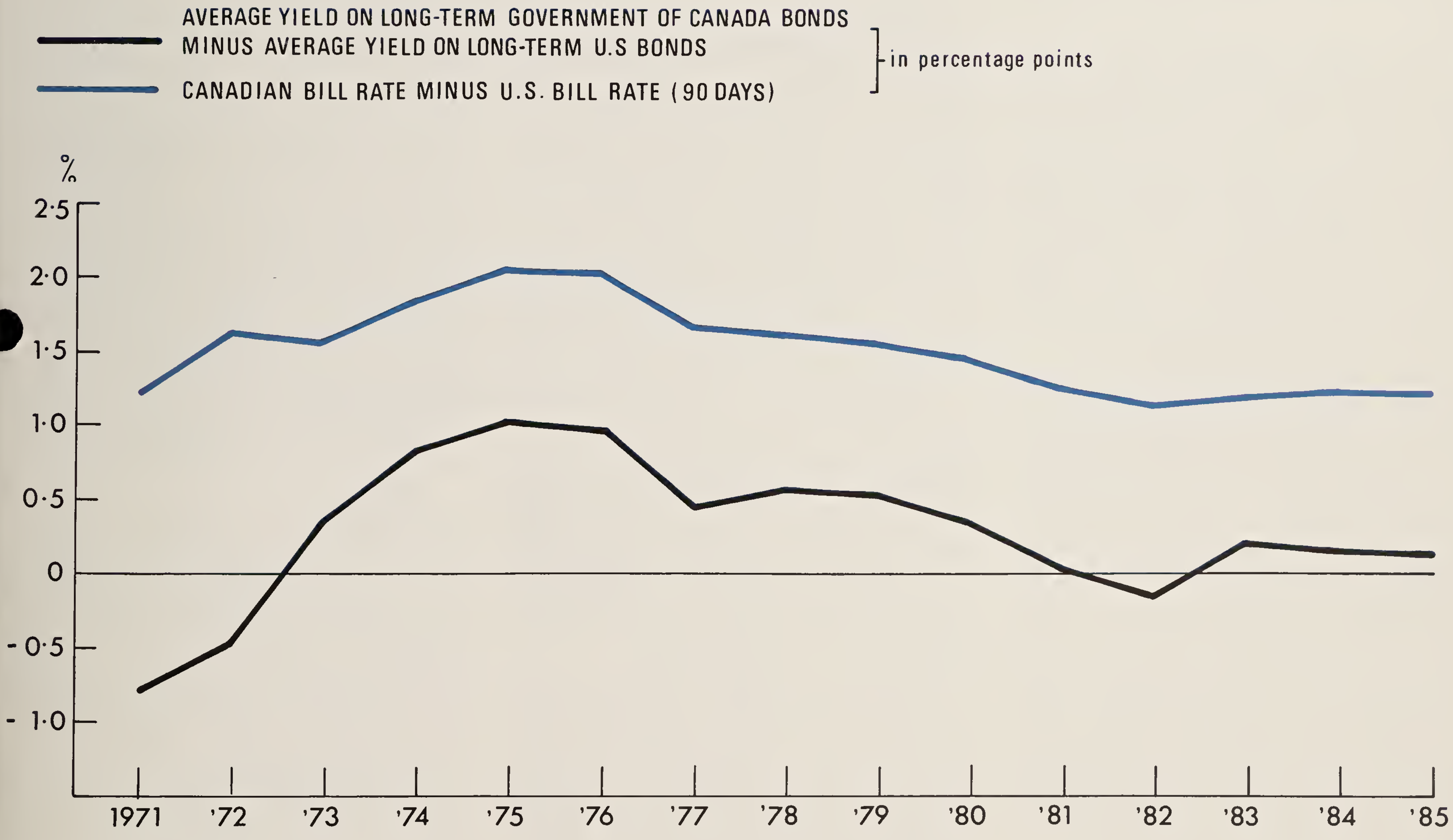
3. Government Financial Position

As has been indicated earlier, the combined governments in Canada will be running deficits until the late 1970's; thereafter, surpluses and deficits will alternate.[6] One may now consider some financial aspects of these budgetary positions.

Between 1966 and 1970 the combined governments consistently showed National Accounts surpluses ranging from $0.2 billion to $1.2 billion – totalling about $3.6 billion in those five years. Since the Canada and Quebec Pension Plans, introduced in 1966, ran surpluses totalling about $4.9 billion to 1970, it is clear that these Plans brought about a massive shift to compulsory saving and offset an otherwise $1.3 billion in deficits by the combined governments over the period. It is estimated that these two Pension Plans will contribute total savings of about $6.8 billion from 197[illegible] 1975, $8.5 billion from 1976 to 1980, and $10

Fig. VIII

INTEREST RATES DIFFERENTIALS BETWEEN U.S. AND CANADIAN GOVERNMENT SECURITIES



billion from 1981 to 1985 to the position of the combined governments. The marked slowing down in the rate of growth of these sources is attributable to the faster growth of benefits paid, compared with contributions received.

Despite the surpluses in these Pension Plans, the combined governments in Canada are forecast to show deficits totalling $3.7 billion from 1971 to 1975, a surplus of about $0.5 billion during 1976-80, and an approximate balance from 1981 to 1985. Adjusting the National Accounts budget position to a cash basis by taking account of financial transactions, such as loans and advances made by governments, and assuming no foreign exchange financing because of the floating Canadian dollar, one finds that governments' net financing requirements will be about $21 billion from 1971 to 1975, a similar amount from 1976 to 1980, and about $28 billion from 1981 to the end of the forecast period.

Canada Savings Bonds (at $11 billion outstanding in early 1973) were a major federal instrument of financing in the period 1970-72, with about $4.4 billion net raised this way. If one optimistically assumes this same kind of success in future, the combined governments will have to obtain from net new security issues about $10 billion in the period 1971-75 (compared with $6.6 billion in the period 1966-1970), $13.5 billion from 1976 to 1980, and $22.5 billion in the period 1981-85.

Hence, governments are likely to finance in the capital markets considerably more heavily in future years. Since the federal government can rely on the Bank of Canada and since it has been vacating the long end of the market in favour of Savings Bonds, it is the provinces and municipalities that will have to float their issues in the long market. It appears that the domestic market might not be able to meet the requirements foreseen, but even if about half of the needs are raised abroad, the domestic markets would be under considerable strain. This prediction is entirely consistent with the high interest rate structure that has been forecast, and it is inextricably tied up with the general question of revenue sharing among the different levels of government in Canada.

A further problem on the horizon relates to liquidity in the economy and the implications for debt operations and monetary policy. At the federal level, the average term to maturity for marketable securities held by banks and the public fell from 8.5 years in 1961 to 4.5 years in 1972. Of the public's holdings of such securities, about 45 per cent is now less than 5 years to maturity. Also, of the total federal debt held by the public, Canada Savings Bonds now account for about 67 per cent, as compared with 40 per cent in 1961. The Canadian economy is in a highly liquid state, and unless the trends change, it implies that the monetary authorities will have considerable difficulty in managing the reserves of the banking system. Furthermore, debt operations in an increasingly thin market for long-term government securities would be quite unsettling if actively pursued as a means of influencing the structure of interest rates. This supports the view that in order to be effective, monetary policy conducted through the capital markets will probably adopt measures which are selective with respect to policy goals rather than measures which are aggregative and generalized.

4. Business Finance

The private business sector is likely to require about $105 billion for 1971 to 1975, $162 billion for 1976 to 1980, and $257 billion for the remainder of the forecast period to finance inventories and capital expansion. An increasing proportion of these needs are expected to be met by internally generated funds. The private sector capital consumption allowances and undistributed profits are seen as covering 63 per cent of business capital requirements from 1971 to 1975, 72 per cent in the period 1976-80, and 74 per cent from 1981 to 1985.

This indicates that the capital markets will decline in relative significance as a source of business finance. Among the main factors responsible for this are the growth in depreciation reserves permitted by tax laws, high market rates of interest, and increased affiliate financing. Despite the declining significance of outside financing, however, it will still be true that the capital markets will play an important role in providing investment funds.

In the five years ending 1972, corporate net bond and equity financing averaged $1.8 billion per year, with more than 86 per cent being issued in the Canadian market. In the years ahead, with provinces and municipalities intensifying their search for market funds, the ability of corporations to raise funds at home will depend crucially on the resolution of intergovernmental financing and on the extent to which governments might shift to offshore sources.

With rising interest rates forecast and with long-term fixed interest obligations finding disfavour with lenders, the business sector may have to rely more heavily on bonds with a convertible feature as a long-term vehicle; also, bank loans could increase in significance as a method of financing.

5. Mortgage Financing

The total demand for mortgage funds is g[illegible]rated from residential construction, busi[illegible] construction, and land development. With the growth in construction over the forecast period, with changes in land prices, and with the trend to a lower down payment-to-cost ratio for housing, the annual demand for mortgage funds is expected to grow from about $4.4 billion in 1970 to $11.4 billion in 1975, $16.5 billion in 1980, and $22.5 billion in 1985. In the respective five-year periods between 1971 and 1985, total mortgage funds required are forecast to amount to $47 billion, $71 billion, and $100 billion. The proportion of these totals required for new housing will rise from 65 per cent to 73 per cent over the period.

The total supply of mortgage funds comes from the traditional lending institutions – banks, life insurance companies, trust and loan companies – as well as other corporations, persons, and government. It is estimated that asset growth of private financial intermediaries will be just over 10 per cent average per year in the forecast period, while mortgage assets will grow at a slightly higher rate. Also, the estimate of CMHC mortgage holdings indicates growth at an annual rate of about 8.5 per cent over [illegible] period. With such conditions and the minor role played by other lenders in providing new funds, a shortage of mortgage funds averaging about $1 billion per year is forecast for the period 1973-85.

To narrow this gap, one possibility is for the federal government to double its present lending effort through CMHC. Other possibilities which might involve shifts in government budgetary expenditures towards housing or which might improve the flow of funds into mortgages through enabling legislation will need to be explored and implemented. Real estate investment trusts and future mortgage investment corporations (relatively new sources of mortgage financing) will probably attract some new funds from other areas of the capital markets, thus producing a redistributive rather than incremental effect on the supply of capital funds. Even so, their impact on the mortgage financing gap is unlikely to be substantial. Unless the gap narrows significantly, mortgage rates might rise to unprecedented levels during the 1970's, and the spread between mortgage rates and bond rates might have to increase in order to induce private lenders to channel more of the e[illegible]omy's savings into mortgages.

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[1] *ONFORM is a two-region (Ontario and the Rest of Canada) model estimated from annual data for 1950-69. It bears no relation to the Ontario model described in the* Ontario Economic Review, *March 1971, Special Supplement.*

[2] *The effects of this project will be dealt with [illegible] the November/December 1973 issue of* the Ontario Economic Review *in an article entitled "The Economic Impact of the Mackenzie Valley Gas Pipeline Project", Policy Planning Branch, Office of Economic Policy, Ministry of Treasury, Economics and Intergovernmental Affairs.*

[3] *Income and expenditure levels for Canada and Ontario are shown for selected years in the Appendix.*

[4] *Economic Council of Canada, "The Economy to 1980: Staff Papers" (Ottawa: Information Canada, 1972). Paper No. 5.*

[5] *Projections of the age distribution of Canada's population to 1985 were obtained from Statistics Canada.*

[6] *These deficits and surpluses are in the budget's National Accounts form.*

Appendix

Table A-1 – Canada's Gross National Expenditure, Selected Years[1]
(Billions of Current Dollars)

	1971	1975	1980	1985
Personal Consumption Expenditures	54.0	83.2	130.2	197.7
Government Current Expenditures on Goods and Services	18.5	28.2	45.1	74.6
Government Gross Fixed Capital Formation	3.8	4.9	7.5	11.6
Private Gross Fixed Capital Formation	16.8	23.5	39.4	58.4
Exports of Goods and Services	22.3	32.0	50.5	76.9
Less: Imports of Goods and Services	–22.1	–34.3	–54.0	–81.5
Other Expenditure[2]	.2	3.9	7.1	9.5
GROSS NATIONAL EXPENDITURE	93.4	141.4	225.8	347.2

[1] *1971 Actual, Other Years Forecast.*

[2] *Value of Physical Change in Inventories plus Residual Error of Estimate.*

Table A-2 – Ontario's Gross Provincial Expenditure and Income
Selected Items in Selected Years[1]
(Billions of Current Dollars)

	1971	1975	1980
Personal Consumption Expenditure	21.8	34.1	56.2
Private Gross Fixed Capital Formation	6.6	9.4	16.1
Exports of Goods and Services	11.1	16.0	25.2
Less: Imports of Goods and Services	–9.1	–14.2	–22.3
Other Expenditure[2]	7.6	13.5	22.2
GROSS PROVINCIAL EXPENDITURE	38.0	58.8	97.4
NET PROVINCIAL INCOME	28.8	45.7	75.9
PERSONAL INCOME	30.0	48.3	80.1
PERSONAL DISPOSABLE INCOME	23.4	37.5	60.9

[1] *1971 Estimate, Other Years Forecast.*

[2] *Sum of Government Expenditures, Interprovincial Trade Balance, Inventory Change, and Residual Error.*

Table A-3 – Canada's Gross National Expenditure, Selected Years[1]
(Billions of Constant 1961 Dollars)

	1971	1975	1980	1985
Personal Consumption Expenditures	41.6	54.1	69.7	86.2
Government Current Expenditures on Goods and Services	11.0	13.1	16.4	21.5
Government Gross Fixed Capital Formation	2.6	3.0	3.8	4.9
Private Gross Fixed Capital Formation	12.0	13.2	16.8	19.2
Exports of Goods and Services	18.2	22.7	29.8	38.2
Less: Imports of Goods and Services	17.9	23.8	31.6	41.0
Other Expenditure[2]	.2	.8	1.2	1.8
GROSS NATIONAL EXPENDITURE	67.8	83.1	106.1	130.8

[1] *1971 Actual, Other Years Forecast.*
[2] *Value of Physical Change in Inventories plus Residual Error of Estimate.*

Table A-4 – Canada's National and Personal Income, Selected Years[1]
(Billions of Current Dollars)

	1971	1975	1980	1985
Wages, Salaries, and Supplementary Labour Income	51.3	78.8	125.7	195.3
Military Pay and Allowances	.9	1.1	1.5	2.1
Corporation Net Profits Before Taxes	9.0	15.7	22.6	27.5
Other Income and Inventory Valuation Adjustment	9.2	12.7	21.3	33.1
NET NATIONAL INCOME	70.4	108.3	171.1	258.0
Indirect Taxes Less Subsidies	12.3	18.9	30.7	47.1
Capital Consumption Allowances and Miscellaneous Valuation Adjustments plus Residual Error of Estimate	10.7	14.2	24.0	42.1
GROSS NATIONAL PRODUCT	93.4	141.4	225.8	347.2
PERSONAL INCOME	73.4	112.7	179.2	278.3
PERSONAL DISPOSABLE INCOME	59.3	91.1	142.3	215.1

[1] *1971 Actual, Other Years Forecast.*

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March	Significant Economic Changes in Agriculture
April	The Growth and Development of the Furniture Industry in Ontario
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June	The Growth and Development of the Motor Vehicle Industry in Ontario
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Sept.	A Progress Report on the Economic Atlas of Ontario
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Nov.	Concentration and Competition in Ontario's Fluid Milk Industry
Dec.	(Annual Review)

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Jan.-Feb.	Opportunity through On-the-Job Training
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Notes

Ontario

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Hon. John White,
Minister of Treasury, Economics and Intergovernmental Affairs
H. Ian Macdonald, Deputy Minister

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Demographic Trends in Ontario: Some Policy Considerations

D. C. Dallimore and B. Lampert, *Economists*
Policy Planning Branch

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Minister of Treasury, Economics
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H. Ian Macdonald
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The *Ontario Economic Review* is prepared and edited bimonthly in the Economic Analysis Branch of the Office of Economic Policy, Ministry of Treasury, Economics and Intergovernmental Affairs. The review presents articles of interest as well as current information on economic activity in Ontario. Signed articles reflect the opinions of their authors and do not necessarily represent the views of the Ministry.

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About the Review

The article for the September/October edition of the *Ontario Economic Review* examines some of the major implications which projected demographic trends to the 1980's are likely to have for the development of government policies in Ontario.

Ontario's population, which stood at 7.7 million in 1971, is expected to increase to between 9.3 and 9.9 million by 1986, an annual increase of 1.3 to 1.7 per cent. This is a lower rate of growth than that recorded between 1961 and 1971, when it averaged 2.1 per cent per annum. A significant factor in this reduced rate of population growth is the lower fertility rates forecast for the 1970's than those prevailing in the 1960's. The most unpredictable element in the population increase is migration, about 75 per cent of which is likely to come from abroad.

The article also indicates that the labour force is expected to grow from 3.2 million in 1971 to between 4.3 and 4.5 million by 1981; thereafter, the rate of growth is expected to ease. The proportion of elderly people in the population is expected to increase more rapidly than the population as a whole, while the school-age population is likely to decline. In addition, about 90 per cent of Ontario's population is expected to be living in urban areas by 1986.

These demographic changes have important implications for public expenditures in policy areas such as housing, health, education, employment, and transportation. Some of the major policy considerations are discussed in the article.

The article was prepared by Messrs. D. C. Dallimore and B. Lampert in the Policy Planning Branch, Office of Economic Policy. Particular use was made of *"Ontario Short-Term Population Projections, 1971-1986"*, produced by the Economic Analysis Branch, and the authors acknowledge the contribution made by that branch in the drafting of the article.

Demographic Trends in Ontario: Some Policy Considerations

D. C. Dallimore and B. Lampert, *Economists*
Policy Planning Branch

PART I: TRENDS

I – POPULATION

The rate of population increase in Ontario has shown sharp acceleration in the post-war period, reaching a peak of 4.3 per cent in 1957. It dropped between 1961 and 1971 to average 2.1 per cent, and in 1971 the population totalled 7,703,105, an increase of only 1.6 per cent over 1970.

The population of Ontario could vary in 1986 from 9.3 million, with a net gain from migration of 30,000 per year (low projection), to 9.9 million, with 60,000 net migration (high projection). This would represent an annual growth rate for the whole population of between 1.3 per cent and 1.7 per cent during the forecast period. These projections are based on a medium fertility assumption which anticipates that the 1971 fertility rate of 2.2 will continue falling at a reduced annual rate, reaching the level of 2.1 by 1986. It is expected that the rate of net migration, which averaged 60,000 per year between 1961 and 1971 and which was estimated to decline to 50,000 in 1971-72, will likely continue higher than the long-term average of 30,000 per year. However, it is not expected to exceed 60,000 per year.

Fertility

The total fertility rate in Ontario reached a high in 1960 of 3.8, which means that on average every woman produced 3.8 children during her child-bearing years. Since then, fertility rates have declined to about 2.2, so that it is estimated that Ontarians are now only slightly better than reproducing themselves. It is expected that mortality rates will continue the trend of decline shown over the long-run of past years, although very slowly, as there appears to be little scope for further reduction. Under present conditions of mortality, a total fertility rate of 2.13 is required to replace the population, excluding the migration factor.

Despite a projected decline in the fertility rate, the number of births per year is expected to increase steadily to 1986. This is a reflection of a steady rise, although at a continuously declining rate, in the number of women in the most fertile age group, 20-29, during the same time period. Thus, the effect on population of the decline in fertility per woman will be more than offset by the increased number of women in their early child-bearing years. The forecast decline in fertility rates is likely to be reflected in a decline in average family size from the peak of 3.6 persons reached in 1961 and 1971.

Migration

This is the most volatile factor in Ontario's population growth and is the most difficult to forecast. It is the net sum of two elements:

i) The number of immigrants from abroad to Ontario minus the number of emigrants.

ii) The number of migrants to Ontario from other provinces minus the number of migrants to other provinces.

During the 20th century, net migration has been responsible for 37.5 per cent of the population growth in Ontario. Clearly, changes in federal immigration and manpower relocation policies can have a tremendous impact. Table I indicates the gain in Ontario's population from migration for each decade of this century. The increase from 1951 to 1971 – 1,292,000 – is particularly noteworthy and represents 62 per cent of all migrants to Ontario between 1901 and 1971.

Table I – Net Migration into Ontario, 1901-1971

Years	Number of Migrants
1901-1911	132,000
1911-1921	110,000
1921-1931	154,000
1931-1941	78,000
1941-1951	305,000
1951-1961	686,000
1961-1971	606,000
Total, 1901-1971	2,071,000

Source: *Net migration into Ontario by decade estimated by Ministry of TE & IA, and based on Census data by Statistics Canada.*

If it is assumed that net migration into Ontario will continue at the 1961-71 annual average rate, a gain to Ontario of 60,000 per year could be expected. This would include some 45,000 from net foreign migration and 15,000 from net inter-provincial migration.

However, the net gain to Ontario of about 60,000 per year may be rather high for a sustained rate over any long period. The growth in the working age population may influence federal immigration policies and result in some reduction in immigration from abroad. Interprovincial migration is not subject to governmental regulation but is strongly influenced by the levels of economic opportunity in respective provinces. Since the war, Ontario has experienced a large favourable balance in the interprovincial exchange of migrants, because of continued economic prosperity in the province.

This trend is likely to continue, but at a slower pace, particularly since British Columbia and Alberta have begun to attract increasingly larger proportions of migrants from other provinces. In addition, a changing economic situation in Quebec and the Atlantic Provinces may influence the propensity to migrate among their population. Furthermore, social security, income maintenance, and income redistribution policies could also lessen migratory trends within the country.

Because of the uncertainties inherent in making precise migration forecasts, population projections contained in this article are based on two sets of assumptions concerning migration. One set of projections – the low projection – assumes a net migration of 30,000 per annum; the other – the high projection – assumes net migration of 60,000 per annum.

Age Distribution

The most noticeable features of the existing and forecast age distribution for Ontario are the relative growth of the young working and the retired population and the declining proportion of school-age groups. The composition of the Ontario population in terms of age groups for 1961 and 1971, together with projections for 1976, 1981, 1986, and 1991, is contained in Table II and illustrated in Figures 1 and 2.

0-4 Age Group

The importance of this group has declined proportionately, due mainly to lower fertility rates. But there should be a modest numerical increase to 1986 because of the relatively large number of women in their early child-bearing years; thereafter, the number of children in this group is expected to decline.

5-19 Age Group

The size of this group is of major importance for educational authorities. Using current demographic trends, the Ministry of Education has projected that school enrolment at elementary level will continue declining to 1982. However, enrolment in secondary schools will likely continue increasing to 1978, when it will begin to decline. Combined elementary and secondary school enrolment is forecast to continue declining to 1982.

Table II – Age Distribution of the Ontario Population 1961, 1971 and Projections 1976, 1981, 1986, and 1991

			Net Migration – 30,000				Net Migration – 60,000			
Age Group	1961	1971	1976	1981	1986	1991	1976	1981	1986	1991
				(000's)				(000's)		
0 – 4	740,193	637,260	682	745	785	770	699	772	819	805
5 – 14	1,267,556	1,571,230	1,441	1,351	1,459	1,563	1,465	1,407	1,542	1,660
15 – 19	436,883	713,365	795	799	665	710	804	819	698	761
20 – 29	809,617	1,241,480	1,430	1,567	1,653	1,524	1,480	1,646	1,751	1,647
30 – 54	1,996,932	2,271,765	2,477	2,736	3,047	3,437	2,528	2,864	3,266	3,748
55 – 64	476,748	623,600	689	787	858	858	695	750	879	890
65+	508,073	644,405	708	795	881	1,006	713	805	899	1,035
Total	6,236,092	7,703,105	8,222	8,780	9,348	9,868	8,384	9,112	9,854	10,546

Note: The projections are based on a medium fertility assumption.

Source: SC, Census of Canada, 1961 *and* 1971.
Projections by Ministry of Treasury, Economics and Intergovernmental Affairs.

20-64 Age Group

The size of the 20-64 age group, the bulk of the population from which the labour force is drawn, is forecast to continue to increase significantly to 1986. The 20-29 age group is crucial in terms of family formation. This group numbered 1,241,480, or 16.1 per cent of the population, in 1971 and is forecast to grow to between 1,653,000 and 1,751,000 (17.7 per cent) by 1986. Consequently, there is expected to be an increase in household formation.[1]

Non-family household formation has become an increasingly important segment of total housing demand. The ratio of non-family households to the total number of households has increased steadily over the past ten years, from 13.3 per cent in 1961 to 18.1 per cent in 1971. This increase can be expected to continue at a declining rate over the forecast period.

65 and Over Age Group

While improvements in life expectancy, especially for females, are aiding the growth in the proportion of the older population, the trend has been moderated by large numbers of immigrants who are in the young working and family formation age groups. When immigration is low, there is a tendency for a higher proportion of the total population to be in the 65 and over age group. In 1971, 644,405 persons, or 8.4 per cent of Ontario's population, were 65 and over. This age group is forecast to grow to over 9 per cent by 1986 and to almost 11 per cent by 2001. Consequently, a significant demographic trend is that the number of people aged 65 and over will increase more rapidly than the population as a whole.

"Dependent Population"

The "dependent" population is defined as the non-working element of the total population. The concept of a dependent population is not static because there is an increasing tendency for people to move between the labour force and academic studies and raise children during their lifetimes. However, the working population aged 14-64 constitutes the main group forming the "independent" population contributing to economic support.

The fertility rate is expected to continue declining, while the population is forecast to increase at an average annual rate of between 1.3 and 1.7 per cent from 1971 to 1986. Table III illustrates, in terms of the population dependency ratio, the trends to relatively fewer young people and significantly more elderly people. Thus, in 1971 the total number of people in the non-working dependent population was 4,454,000, while those in the working independent population numbered 3,249,000. The dependent population was therefore 137 for every 100 persons in the labour force. This is forecast to decline to about 103 in 1981 and 100 in 1986, mainly because of anticipated low fertility rates and the large number of people born in the 1950's and early 1960's who will be reaching working age. Therefore, the dependency burden of the increasing number of people in the dependent population will be more than offset by the significant increase in the independent population over the forecast period.

II – LABOUR FORCE

The number of people in the labour force at any point is determined by the size of the working age population (people 14 years of age and over) and the participation rates. Over the past 25 years, the Ontario labour force has been growing at an annual rate of 2.5 per cent. This rate of increase was mainly the result of a larger than average number of new entrants to the work force, large numbers of immigrants to Ontario from abroad and migrants from other provinces, and a substantial increase in participation rates for women.

The future growth of the labour force is determined by:

i) Population growth and changes in the structure of the population. These are a function of expected fertility rates and the level of migration.

ii) Future trends in participation rates, which are influenced by the level of economic activity, attitudes to work and leisure, and retirement trends.

The high proportion of the population in

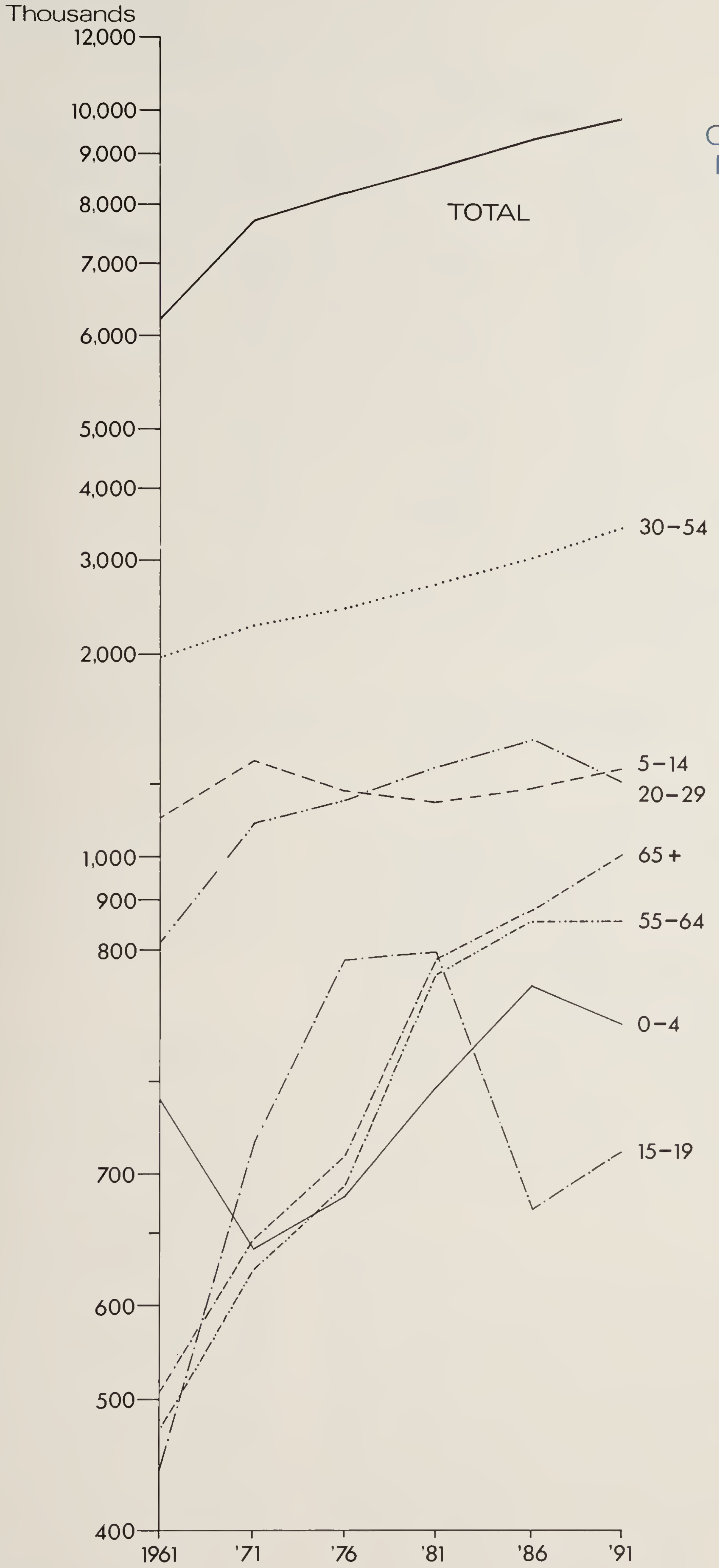


FIGURE 1

Ontario Population Growth
By Specified Age Groups
1961 - 1991

(Low Projection)

Source: *SC*, Census of Canada, 1961 *and* 1971.
Projections by Ministry of Treasury, Economics and Intergovernmental Affairs.

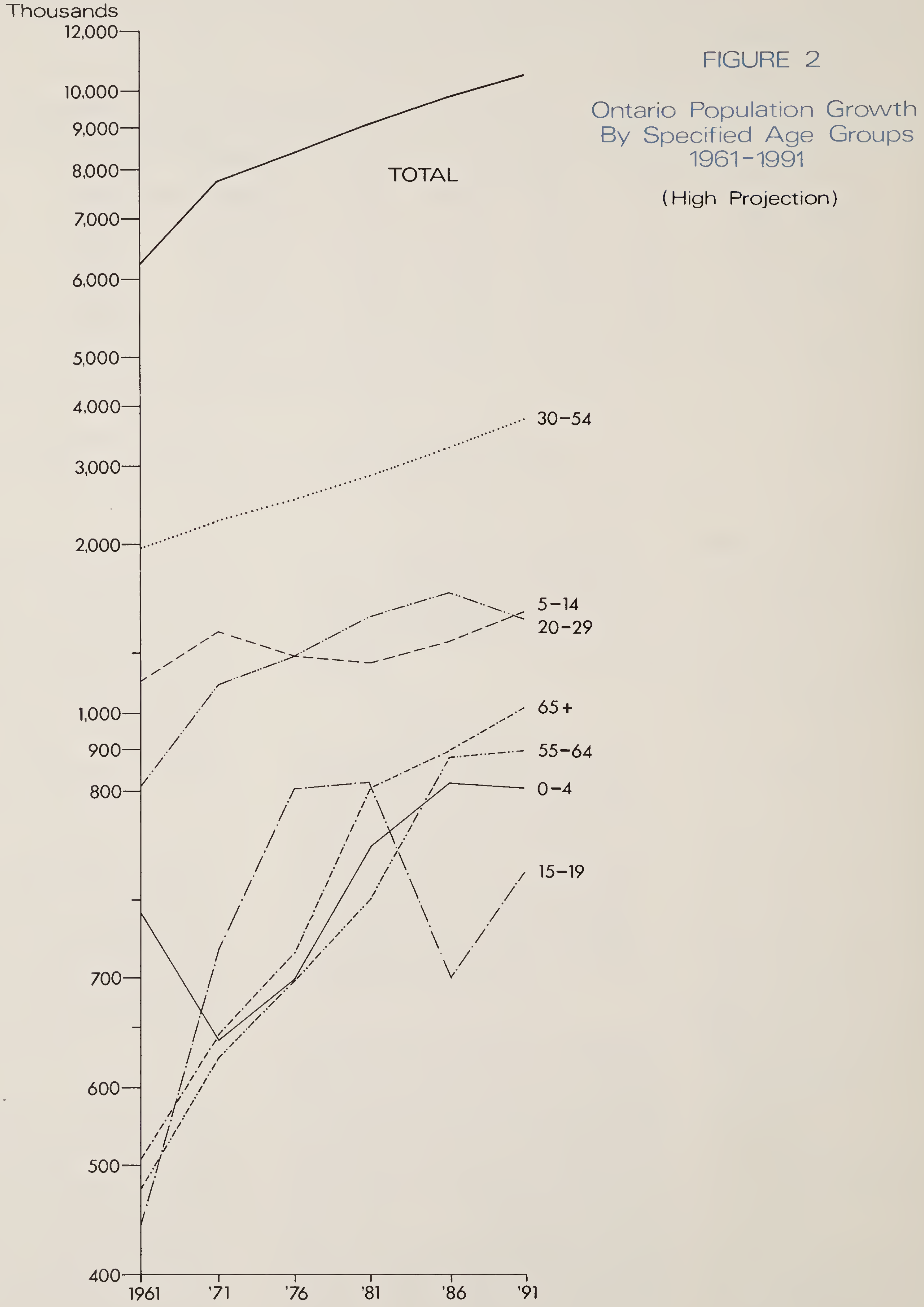


FIGURE 2

Ontario Population Growth
By Specified Age Groups
1961–1991

(High Projection)

Source: SC, Census of Canada, 1961 *and* 1971.
Projections by Ministry of Treasury, Economics and Intergovernmental Affairs.

Table III – The Dependency Ratio of the Non-Working Population, Ontario, 1971-1986 (per 100 Persons in the Labour Force)

Age Group	Actual 1971	High Projection (60,000 Migration)			Low Projection (30,000 Migration)		
		1976	1981	1986	1976	1981	1986
Non-Working Population (000's)							
Under 14	2,056	2,001	2,037	2,216	1,960	1,958	2,109
14 – 64	1,830	1,925	1,898	1,928	1,883	1,835	1,824
65+	568	612	692	774	609	683	758
Total	4,454	4,538	4,627	4,918	4,452	4,476	4,691
Working Population (000's)							
14 – 64	3,173	3,745	4,371	4,810	3,670	4,192	4,535
65+	76	101	113	125	99	112	123
Total	3,249	3,846	4,484	4,935	3,769	4,304	4,658
Dependency Ratio	137	118	103	100	118	104	101

Note: These projections are based on a medium fertility assumption. Dependency ratio refers to number of persons outside the labour force per 100 persons in the labour force.

Source: SC, Census of Canada, 1971.
Projections by Ministry of Treasury, Economics and Intergovernmental Affairs.

1971 in the 15-24 age group (almost 24 per cent) assures a heavy inflow of people into the labour force over the next ten years. This increase will ease off in the early 1980's as the effect of the lower birth rates of the 1960's is felt.

Migration

Immigration has a significant impact on labour force growth and has provided approximately 60 per cent of the total increase in the Ontario labour force over the past 25 years. However, Ontario may not be the recipient of large-scale immigration in the 1970's as the domestic supply of workers may well prove to be adequate for the needs of the economy. Reflecting this, labour force projections are based on two levels of net migration; one set of projections assumes migration of 30,000, while the other assumes migration will be 60,000 persons per year. These projections are derived from an econometric model[2] of the Canadian economy which provides an indication of the pace of overall economic activity. This is the basis for forecasting labour force numbers in Ontario.[3]

As is shown in Table IV, Ontario's labour force is expected to grow from 3.2 million in 1971 to between 4.3 and 4.5 million by 1981; thereafter, the rate of growth is expected to ease. The main factors contributing to this easing are the reduced rate of increase in the inflow of young persons into the working-age population and the slackening in the growth of female participation rates.

The sensitivity of labour force growth to levels of migration is illustrated in Table V. The annual difference in levels of migration assumed for the projections (60,000 minus 30,000) would correspond with an increase in the labour force of 180,000 at the end of the ten-year period 1971-1981, and with an increase of 277,000 by 1986. This indicates the contribution which migration can make to labour force growth in Ontario.

Participation Rates

Changing attitudes to education can have a significant effect on labour force participation rates. The contention that education is a continuing process, not limited to the early years of adulthood, is gaining acceptance. The number of students in the 14-24 age group who will decide to postpone their education thus remains an imponderable. Table VI represents an attempt to estimate how these various trends will offset each other.

Participation rates to 1976 imply that significantly fewer males aged 14-19 are expected to join the labour force. This downward trend is expected to continue, more slowly, to 1986. Participation rates for males in the 20-24 age group, however, are projected to increase gradually to 1986 because students are increasingly likely to spend some part of their early twenties in full time employment before completing their higher education.

The trends in prospect for women are more noteworthy. For female age groups between 20 and 64, very substantial gains in participation are expected, as it seems likely there will be an increase in the attractiveness and availability of part-time and temporary work. However, as Table VI indicates, a deceleration in the growth rate of female participation during the 1980's is anticipated. Participation rates depend on social and economic factors as well as demographic trends, rendering forecasting into the 1980's increasingly difficult.

Labour Force Growth

While labour force growth accelerated at an annual rate of 3.1 per cent in the 1960's, it is expected to decelerate throughout most of the 1970's. Based on medium fertility rates and on trends in participation rates, the high migration projection implies an annual rate of labour force growth of 3.3 per cent in the 1970's; the low migration projection indicates an annual rate of labour force growth of 2.9 per cent during the same period. Moreover, the size of

Table IV – Labour Force Growth in Ontario,[1] 1961-1986

Year	Males		Females		Total	
	Number (000's)	Annual Growth Rate (per cent)	Number (000's)	Annual Growth Rate (per cent)	Number (000's)	Annual Growth Rate (per cent)
1961	1,717		684		2,401	
1966	1,869	1.7	850	4.4	2,719	2.5
1971	2,138	2.7	1,111	5.5	3,249	3.6
High Projection (60,000 net migration)						
1976	2,477	3.0	1,369	4.3	3,846	3.4
1981	2,775	2.3	1,709	4.5	4,484	3.1
1986	3,043	1.9	1,892	2.1	4,935	1.9
Low Projection (30,000 net migration)						
1976	2,426	2.6	1,343	3.9	3,769	3.0
1981	2,665	1.9	1,639	4.1	4,304	2.7
1986	2,873	1.5	1,785	1.7	4,658	1.6

(1) – 14 years and over

Note: These projections are based on a medium fertility assumption.

Source: *SC,* The Labour Force Survey, 1961, 1966, and 1971 *(Special Tabulations)*
Projections by Ministry of Treasury, Economics and Intergovernmental Affairs.

Table V – Ontario Labour Force Projections for Alternative Migration Assumptions, 1971-1986 (000's)

Year	Actual	Labour Force		
		High	Low	Difference
1971	3,249			
1976		3,846	3,769	77
1981		4,484	4,304	180
1986		4,935	4,658	277

Note: These projections are based on a medium fertility assumption.

Source: *SC,* The Labour Force Survey, 1971 *(Special Tabulations).*
Projections by Ministry of Treasury, Economics and Intergovernmental Affairs.

the population base and the size of the economy in the late 1970's will be significantly larger than those at any previous time. After 1981, the rate of growth of the labour force is expected to ease.

As illustrated in Figures 3 and 4, the 25-34 labour force group (numbering 733,000 in 1971) will continue to be by far the largest element in the labour force in the forecast period, reaching between 1,200,000 and 1,300,000 by 1986. The 35-44 age group in 1971 was the second largest component of the labour force (695,000) and is expected to maintain this position, growing to between 1,040,000 and 1,125,000 by 1986. When these two groups are combined, the 25-44 age group of the labour force formed 44 per cent of the total in 1971, and it is anticipated that this figure will rise to about 50 per cent by 1986.

Since the trend towards increased education is likely to continue, the labour force will be better educated and more mobile. Therefore, greater flexibility in the labour supply in terms of spatial and occupational mobility within the province is anticipated. However, structural problems may also persist because of the heavy inflow into the labour force of inexperienced young people whose training does not always match job requirements.

Early Retirement

It is difficult to generalize about the impact of early retirement on the Ontario economy for lack of adequate statistics. One problem is that older workers in some businesses find employment after retirement; another, that not all workers retire automatically at age 60 or 65. Almost 21 per cent of males aged 65 and over were still working in 1971, and this proportion is expected to increase to 25 per cent during the forecast period.

Changing Attitudes Towards Work and Leisure

Participation in the work force is influenced by the level of economic activity as well as other factors related to people's attitudes to work, leisure, and so on. There has been increased debate about the work ethic and attitudes towards work, and workers and unions are showing marked interest in larger blocks of leisure time.

Recently, there has been growing support for the restructuring or shortening of the work week. By 1986, a larger proportion of the labour force is likely to be on a four-day work week, ranging between 36 and 32 hours.

FIGURE 3 – Age Distribution of the Ontario Labour Force 1971 and Low Projections 1976, 1981, 1986, 1991

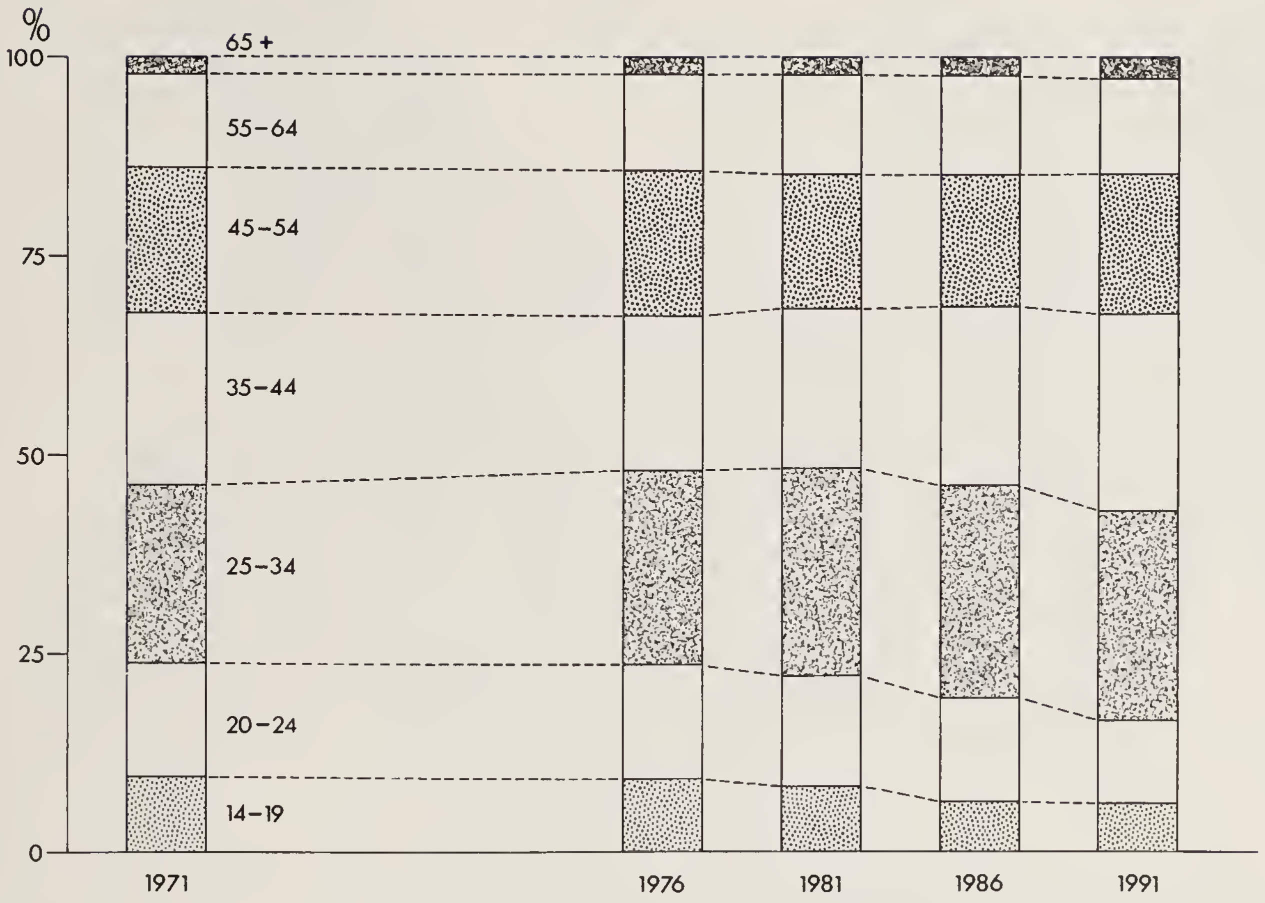
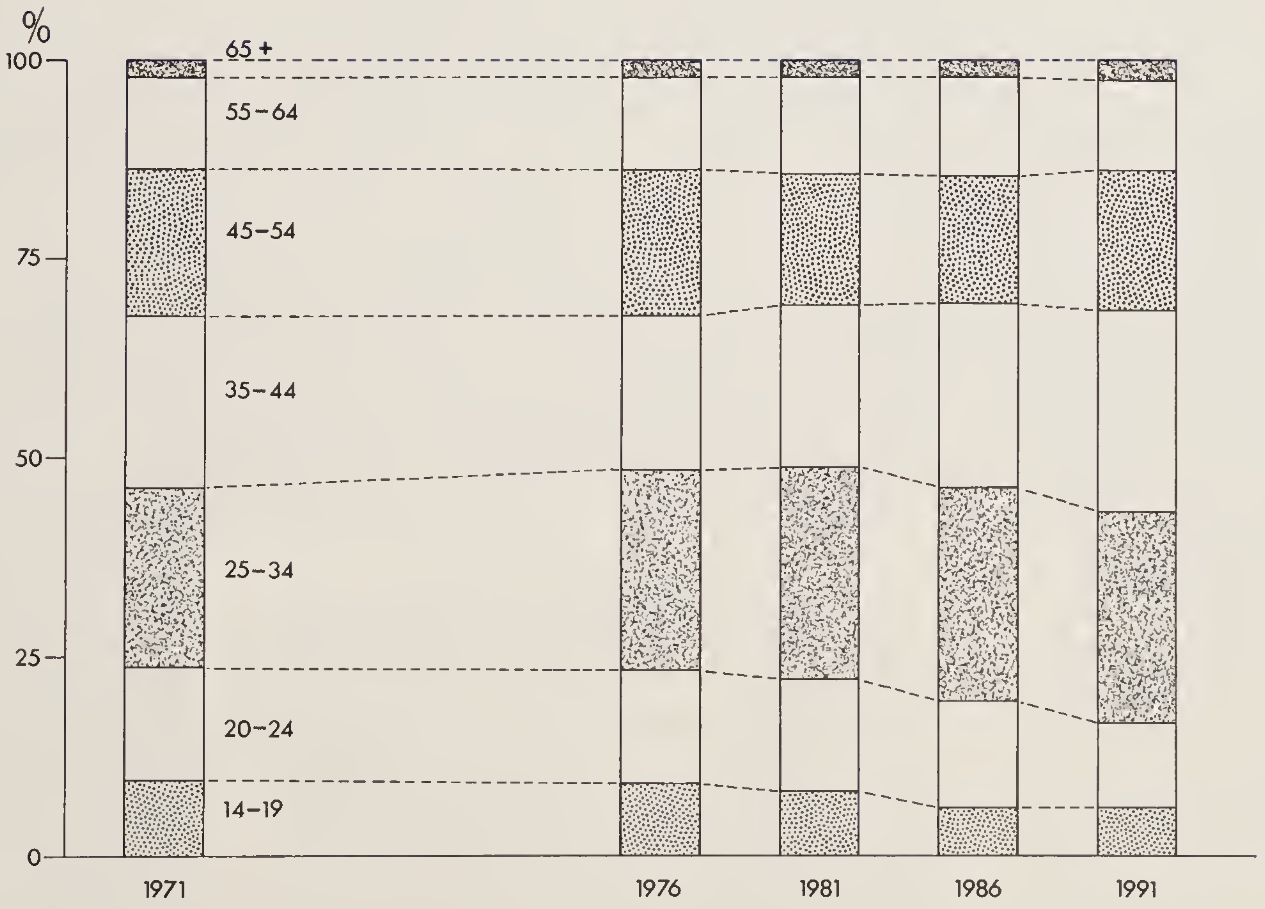


FIGURE 4 – Age Distribution of the Ontario Labour Force 1971 and High Projections 1976, 1981, 1986, 1991



Source: *SC,* The Labour Force Survey, 1971 *(Special Tabulations).*
Projections by Ministry of Treasury, Economics and Intergovernmental Affairs.

Table VI – Ontario Labour Force Participation Rates, by Age Group and Sex, 1961-1986
(per cent)

Year	14-19	20-24	25-34	35-44	45-54	55-64	65+
			Males				
1961(1)	40.6	89.0	95.7	96.0	94.2	84.5	31.5
1971	47.2	79.4	94.8	98.5	96.4	85.5	20.7
Projected Rates							
1976	42.0	82.0	97.0	98.0	96.0	88.0	25.0
1981	41.5	84.0	97.0	98.0	96.0	88.0	25.0
1986	41.0	84.5	97.0	98.0	96.0	88.0	25.0
			Females				
1961(1)	33.9	51.6	33.8	36.2	38.4	28.4	7.6
1971	40.7	55.7	44.9	47.7	46.1	34.6	5.1
Projected Rates							
1976	42.0	58.5	46.0	50.0	51.0	40.0	6.0
1981	41.5	66.0	52.0	57.0	59.0	48.0	6.0
1986	41.0	67.5	52.5	59.0	62.0	50.0	6.0

(1) *15-19 Year Age Group*

Source: *DBS,* Census of Canada, 1961 *(Population and Labour Force, Volume III, Part I)*
SC, The Labour Force Survey, 1971. *(Special Tabulations).*

Projections by Ministry of Treasury, Economics and Intergovernmental Affairs.

III – SPATIAL DISTRIBUTION

The majority of Ontario's population in 1971 was classified as urban.[4] Table VII illustrates the growth of urban population between 1961 and 1971.

If the trend between 1961 and 1971 is maintained, about 90 per cent of Ontario's population could be classified as urban by 1986, with the urban population growing at a faster rate than that of the total population. This shift from a rural to an urban population is related to the growth of the industrial economy and to net migration from abroad and other parts of Canada.

Table VII – Ontario's Population Distribution, 1961-1971

	Rural		Urban		Total
		Per Cent		Per Cent	
1961	1,412,563	22.7	4,823,529	77.3	6,236,092
1966	1,367,430	19.6	5,593,440	80.4	6,960,870
1971	1,359,475	17.6	6,343,630	82.4	7,703,105

Source: *SC,* Census of Canada, 1961, 1966, *and* 1971.

Ontario, with 82.4 per cent of its population classified as urban in 1971, is the most urbanized province. In the same year 76.1 per cent of Canada's population was classified as urban and 80.6 per cent of Quebec's population was similarly classed. The Economic Council of Canada[5] forecasts that over 80 per cent of Canada's population will be urban by 1980. The ECC also expects that about 60 per cent of the population will be concentrated in 29 urban complexes, each with a population of at least 100,000.

The concentration of Ontario's population in the southern part of the province and along the Windsor-Montreal corridor (the line of Highway 401) is expected to continue. In 1961, 3.4 million, 54 per cent of the Province's population, was located in 21 centres along this corridor; by 1971, this had grown to 4.5 million, 58 per cent of the Province's population. Given such trends, by 1981 these centres could grow to 6.9 million, or about 67 per cent of the provincial total. In contrast, Northern Ontario's proportion of the total provincial population is declining, having fallen from 11.6 per cent in 1961 to 10.1 per cent (or 776,505) in 1971. Figure 5 illustrates the distribution of Ontario's population in 1971; Figure 6 shows population changes by county and district between 1961 and 1971.

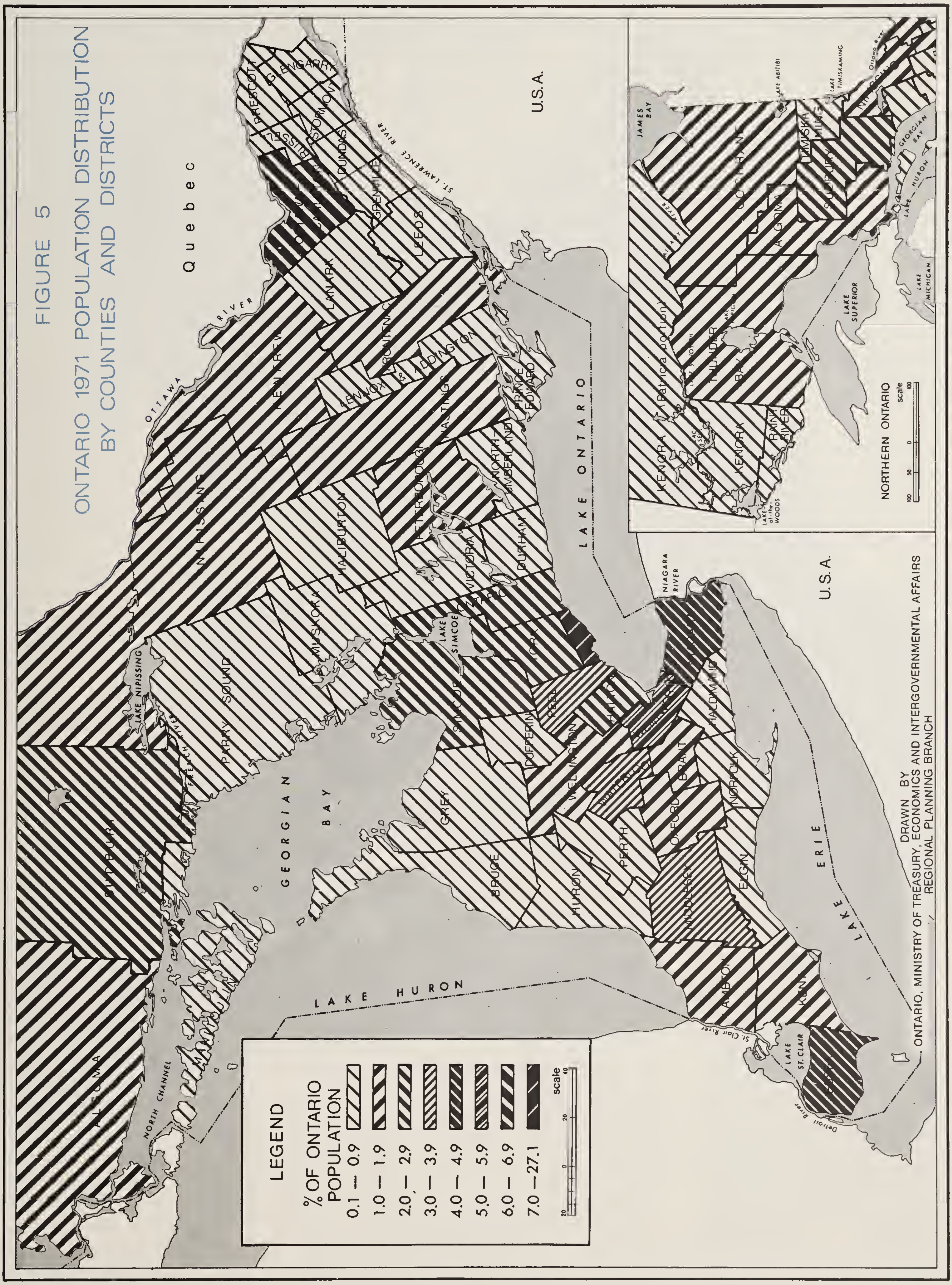


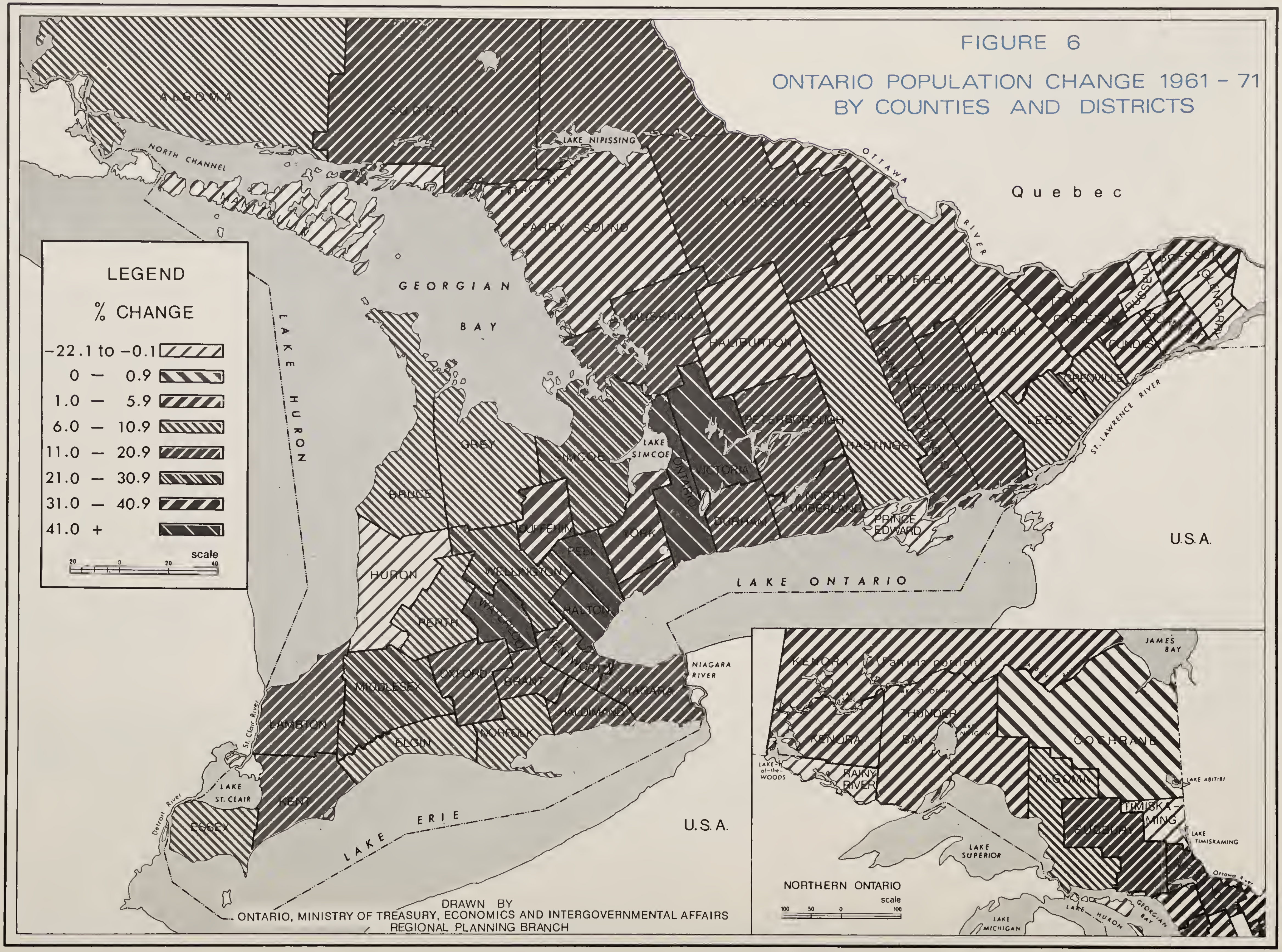
FIGURE 5

ONTARIO 1971 POPULATION DISTRIBUTION BY COUNTIES AND DISTRICTS

Source: *SC*, Census of Canada, 1971.

FIGURE 6

ONTARIO POPULATION CHANGE 1961 - 71
BY COUNTIES AND DISTRICTS



Source: *SC*, Census of Canada, 1961 *and* 1971.

PART II: SOME POLICY CONSIDERATIONS

The projected changes in Ontario's population composition and distribution could have important implications for priorities in terms of government policies and expenditures. Some of these are discussed below.

Immigration

It is in the area of immigration where the greatest uncertainty in forecasting the future size of the population lies. Changes in federal immigration policy have considerable ramifications for many provincial policies; for example, if immigration is restricted, this would likely reduce the rate of population growth in the Metropolitan Toronto area. Over half of all immigrants to Ontario from abroad settle in Toronto and in the last few years Toronto has been receiving an annual average of at least 40,000 immigrants.[6] Immigration in the past enabled Canada, and particularly Ontario, to rapidly accumulate skilled labour and professionals, although the training and development of skills within the province during the last two decades could lessen the dependence on immigration for this purpose in the future.

Population increases attributable to migration have particular repercussions on levels of employment, public and private investment, household formation, housing construction, and education requirements in the province. More specifically, immigration has had and will continue to have a marked effect on population growth in larger Ontario cities since the majority of immigrants settle in urban areas where jobs and housing are more likely to be found.

Education

During the past few years, expenditure in education has absorbed a large percentage of provincial wealth. Massive spending by the provincial and municipal governments to provide for basic public school education has been necessitated by the large proportion of young people of elementary and secondary school age. In addition, the increasing number of years of schooling needed in a technologically advanced economy and the increased desire to provide equality of educational opportunities have contributed to the higher cost of education. There will now be some easing in the demographic pressures which resulted in the increasingly high resource allocations for education.

With shifts in population within Ontario discounted, the stock of relatively new educational capital already provided will probably be adequate to meet most demands at the elementary and junior school levels for some years. There will be continued but reduced pressure on secondary school facilities. To a large extent, additional construction of educational facilities will most likely be associated with migration within Ontario and replacement of obsolete buildings.

Observing current enrolment trends, the Ministry of Colleges and Universities projects that overall enrolment at post-secondary educational institutions will increase fairly slowly at least to 1975, that university enrolment will show little growth, and that enrolment at the Colleges of Applied Arts and Technology will constitute the bulk of the increase. This will have significant implications for investment and teacher expenditures in the area of post-secondary education.

Household Formation

The 20-29 age group, the most important in terms of family formation, is forecast to increase by about half a million between 1971 and 1986, with its share of the total Ontario population growing from 16.1 to 17.7 per cent. Consequently, household formation is expected to increase, leading to increased demand for houses and associated consumer durables. A large proportion of immigrants fall in this age group and would, therefore, influence this trend.

Elderly Population

The relative decline in the 0-14 age group indicates that budgetary demands, in terms of the provision of educational facilities, may ease. However, the increase in the 65 and over age group is expected to grow more quickly than the population as a whole. This suggests that government expenditures on this group will likely increase and perhaps more than offset those for the school-age population. Nevertheless, as indicated earlier, the overall dependency burden of the increasing size of the non-working population is expected to be more than offset by the more rapid growth of the working population. In addition, immigration from abroad can help to counterbalance the financial impact of a rising elderly population, because immigration has a positive effect on the working and family formation age groups. Thus, when immigration is high, the number of people 65 years and over tend to form a lower proportion of the total population.

Therefore, the growth of the 65 and over age group will likely involve an increase in federal government transfer payments, such as the old age pension and the guaranteed income supplement. Provincial government expenditures on such items as the provision of senior citizens' housing, institutional care, and geriatric health facilities, will also rise.

Manpower and Employment

Greater flexibility is anticipated in terms of spatial and occupational mobility within the province, as a result of a better educated and more mobile labour force.

There is expected to be a continuing need for special employment programs to alleviate structural problems, which may also persist because of the heavy influx of relatively inexperienced labour force entrants whose training does not always match job requirements. The integration of these programs with manpower training schemes is essential to ensure a more adaptable labour force, responsive to the needs of the economy.

Job creation should remain a major consideration in the near term, although the expected easing in the growth of the labour force after 1981 could contribute to a reduction in the pressure for new jobs in the early 1980's.

Since labour force growth in the future is expected to rely more heavily on the domestic population than on immigration, it may be more difficult to find suitable employment opportunities for new labour force participants. The attainment of a comparable level of employment with a largely domestic growth in the labour force could be more expensive in terms of manpower training. It must be remembered, however, that inflows of people from outside of the province also impose demands on social services, which require the provision of additional "social overhead capital" in the form of schools, health facilities, housing, public utilities, and water and sewage systems.

While the continued shortening and/or restructuring of the work week might increase employee morale, it could contribute to a lowering of productivity. In addition, a change in the work week will impinge on the problems of urbanization, the environment, and the use of leisure time. However, to accommodate a more flexible work week, it may be necessary to review federal and provincial labour legislation. Meanwhile, the Ontario Government has undertaken a demonstration project with more flexible work schedules in the Queen's Park administrative complex in Toronto to relieve pressure on the transportation system.

The recent trend to a reduction in working hours and the associated boom in leisure industries are creating new jobs in almost every sector of the economy; furthermore, this impact is likely to result in continuing high levels of public expenditures on parkland, water facilities, highways, secondary roads, and bridges. This will occur at a time when there is increasing pressure for the use of land.

Urban Growth

Urban growth is sensitive to population movement, and trends in migration are a key factor in influencing the size and characteristics of Ontario cities. The outlook for the future is the further general concentration of population along the Windsor-Montreal corridor and particularly within the Toronto-Centred Region. One forecast,[7] for example, suggests that by the year 2000 Metropolitan Toronto could double or treble its 1966 population to reach 4 or 6 million. This would arise out of economic pressures and preferences of the population to live in an urban area.

Whatever the magnitude of such a population increase, the growth of urban population is creating pressures on the nature and quality of land use in urban areas – especially in and around Metropolitan Toronto. This population pressure has contributed to a growth in land and house prices, which have risen faster than personal incomes. Thus, on average, whereas net personal disposable incomes[8] per household in twelve selected urban areas of Ontario rose by 64.1 per cent between 1961 and 1971, the cost of new detached NHA homes rose by 86.5 per cent, and the cost of new NHA lots rose by 189 per cent.

Because of the intense pressure on urban centres, there will be a need for more imaginative and innovative policies on the part of both the public and private sectors to provide adequate, economically priced housing. The Province has taken a number of measures to counteract the upward cost pressures. A new Ministry of Housing has been established and various initiatives have been taken to increase the availability of serviced land in major urban centres. In addition, there has been a determined effort to redistribute growth more evenly in Southern Ontario. The Toronto-Centred Region Plan represents an attempt to structure the growth of the greater Toronto area into an orderly system of urban communities incorporating a parkway belt.

The possibilities for controlling urban growth include co-ordination of regional development with industrial and agricultural policies, limitations on urban sprawl, integration of land use, regional and transportation planning, and the development of fully planned communities. Perhaps, however, there is a need for a more comprehensive Ontario-wide policy for population distribution linked with the physical and economic aspects of the planning of the province.

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[1] *The principal components of household formation are family household formation and non-family household formation.*

[2] *For detail, see Dr. Clifford Jutlah's "A Long-Term Economic Forecast for Canada and Ontario",* Ontario Economic Review, *Vol. 11, No. 4 (Toronto: Queen's Printer, 1973).*

[3] *The 1971 Ontario labour force figure is based on the* 1971 Labour Force Survey *rather than the* 1971 Census.

[4] *Urban population consists of all people residing in communities with a population of at least 1,000.*

[5] *Economic Council of Canada, "The Canadian Economy From the 1960's to the 1970's,"* Fourth Annual Review *(Ottawa: Queen's Printer, 1967).*

[6] *Freda Hawkins, "Canada and Immigration: Public Policy and Public Concern" (Montreal: the Institute of Public Administration of Canada, 1972).*

[7] *Systems Research Group: "Canada: Population Projections to the Year 2000" (Toronto, 1970).*

[8] *Personal disposable income is generally equivalent to "effective buying income" as defined in* Sales Management's *"Survey of Buying Power", June 1962, pp. 714-718; and July 1972, pp. E28-E30.*

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Ministry of Treasury, Economics and Intergovernmental Affairs

Hon. John White,
Minister of Treasury, Economics and Intergovernmental Affairs
H. Ian Macdonald, Deputy Minister

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The Future Structure of Ontario's Economy 1
Enedina Ferik and J. P. Warner, *Economists*
Policy Planning Branch

The Economic Impact of the Mackenzie Valley Gas Pipeline Project 4
R. G. Fletcher, *Economist*
Policy Planning Branch

Selected Economic Indicators 14

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About the Review

The proposal to construct a 2,500-mile pipeline to carry natural gas from the Mackenzie Delta and from Prudhoe Bay in Alaska to markets in Canada and the United States is the largest project ever proposed in Canada by the private sector. It is not surprising then, that a project of the size of the Mackenzie Valley Gas Pipeline should produce considerable concern regarding its implications for the Canadian economy.

The feature article for the November/December edition of the *Ontario Economic Review* examines some of the issues that have been raised in connection with the construction of the pipeline. With the aid of an econometric model, the extent and timing of the impacts are traced out in terms of interest rates, inflation, balance of payments, the exchange value of the Canadian dollar, employment, and GNP.

No attempt is made to answer the question whether the pipeline should be built, but only what the impact will likely be and what economic problems are likely to arise if construction proceeds. The article was prepared by R. G. Fletcher in the Policy Planning Branch, Office of Economic Policy, Ministry of Treasury, Economics and Intergovernmental Affairs.

In an article on the structure of the Ontario economy in the mid-1980's, Enedina Ferik and J. P. Warner of the Policy Planning Branch look at the growth of the manufacturing and service sectors of the economy and project to 1985 the distribution of employment by sector in Ontario.

Just as agriculture now employs fewer persons than it did at the turn of the century, so the manufacturing and service sectors of the economy can be expected to assume new relative positions in the future.

Indicator Charts, Pages 14-16

Fluctuations in aggregate economic activity – commonly used to define business cycles – do not necessarily correspond with fluctuations in the individual activities which make up the aggregate. Instead different indicators of economic activity may vary with respect to both their rates of growth and the timing of their peaks and troughs: some may grow more rapidly than others, some change direction sooner.

Those activities which tend to assume a direction in advance of the aggregate – because they relate to future rather than present production – are referred to as leading indicators, and are widely used to anticipate the short-run future course of the overall economy. The charts on pages 14, 15 and 16 in the *Ontario Economic Review* present a number of these leading indicators, as well as several which are coincidental to or lag behind the aggregate, to provide for the reader an opportunity to make such an evaluation.

While comparisons of the timing and direction of general changes in the various indicators can readily be made, great care must be exercised in making such a comparison of the amplitude of fluctuations. Of the three vertical scales used – 'A' (arithmetic) and 'L1' and 'L2' (logarithmic scales with one and two cycles respectively over a given vertical distance) – only the logarithmic scales can be used to compare relative changes in different indicators. *And this applies only when all series being compared are on the same logarithmic scale.* In such a situation all parallel lines represent equal rates of growth, the exact rate of growth being determined by the slope of the line.

The Future Structure of Ontario's Economy

hgko

Enedina Ferik and J. P. Warner, *Economists*
Policy Planning Branch

I – INTRODUCTION

There are two ways of describing the industrial structure of an economy. The first method is based on the distribution of employment among the various industries. The second focusses upon the contribution each industry makes to real domestic product. By both measures, Ontario's post-war economic development has brought significant shifts in its industrial structure. The trend in Ontario, as in Canada and in industrialized countries in general, has been a decline in employment in agriculture. The relative importance of the manufacturing sector and of the service industries depends upon the criteria used, but employment in the latter has grown very rapidly.

A tentative view of the future structure of Ontario's economy was obtained by projecting output to 1985 on the basis of rates actually experienced in Ontario during the period 1961 to 1970.[1] Employment in 1985 was estimated from the projected output, using three possible productivity trends.

II – BACKGROUND

Ontario's economy is dominated by the manufacturing sector. It is the Province's biggest employer and provided 27 per cent of all jobs in 1972. Its relative importance as the major source of employment, however, has been diminishing, as Table I illustrates. While manufacturing still accounted for 28 per cent of provincial employment in 1961, the proportion was 32 per cent a decade earlier. On the other hand, the growing importance of the service-producing sector is highlighted by the fact that in 1972 it employed 61 per cent of the total work force, as compared with 56 per cent in 1961, and 48 per cent in 1951. Within the service sector, community, business and personal services showed the greatest growth in employment and accounted for 51 per cent of the total increase in employment in the sector during the 1951-1972 period. Declines in employment were experienced in all the primary industries, particularly in agriculture.

Another way of viewing the structure of an economy is to look at the proportion of total output contributed by each industry. Table II shows that the manufacturing sector accounted for 34 per cent of the total provincial output in 1970, as compared with 31 per cent in 1961, while primary industries now contribute less to the provincial economy. The service sector of the economy generated almost 56 per cent of the total output in 1970, down slightly from 56.9 per cent in 1961.

Table I – Distribution of Employment in Ontario, 1951, 1961, 1972
(per cent)

	1951	1961	1972
Goods-producing Sector	52.5	44.0	38.6
Agriculture	10.8	7.2	3.6
Other Primary	3.0	2.7	1.8
Manufacturing	32.4	27.5	27.4
Construction	6.3	6.6	5.8
Service-producing Sector	47.5	56.0	61.4
Transportation, Communication and Other Utilities	9.0	8.3	7.6
Trade	14.6	15.8	16.4
Finance, Insurance and Real Estate	3.3	4.2	5.1
Community, Business and Personal Service	14.4	20.0	25.5
Public Administration and Defense	6.2	7.7	6.8
TOTAL	100.0	100.0	100.0

Source: Distribution is based on statistics from Census of Canada *and* The Labour Force Survey, *Statistics Canada.*

Table II – Distribution of Output in Ontario, 1961 and 1970
(per cent)

	1961	1970
Goods-producing Sector	43.1	44.2
Agriculture	3.5	2.5
Other Primary	3.9	2.9
Manufacturing	30.9	34.0
Construction	4.8	4.8
Service-producing Sector	56.9	55.8
Transportation, Communication and Other Utilities	10.6	11.5
Trade	12.8	13.0
Finance, Insurance and Real Estate	13.3	11.3
Community, Business and Personal Service	12.7	14.1
Public Administration and Defense	7.5	5.9
TOTAL	100.0	100.0

Note: 1961 weights of real gross domestic product are used.

Source: Estimates of real domestic product were made by the Ministry of Treasury, Economics and Intergovernmental Affairs.

III – FUTURE STRUCTURE

Changes in the industrial structure of the economy are determined by the relative rates of growth of output and of labour productivity. Since forecasting the productivity gain of a particular industry is hazardous, three sources of real output per unit of labour input have been used to obtain a range of forecasts:

i) United States trends for the period 1948-1969 inclusive.[2]
ii) Projections for Canada for the period 1970-1980 by the Economic Council of Canada.[3]
iii) Projections of the productivity of Ontario industries prepared by the Ministry of Treasury, Economics and Intergovernmental Affairs.

Figures for the principal industrial sectors are listed in Table III. The United States and the Economic Council of Canada figures are expressed in terms of real output per man-hour, while those of TE & IA are expressed as real output per employee.

Table IV shows the alternative employment patterns in 1985, calculated on the basis of the three productivity trends and the projected output for Ontario.

These employment figures suggest that manufacturing will provide jobs for a smaller proportion of the work force in the future. According to these forecasts, most of the additional employment will be in the service-producing sector, mainly in community, business and personal services. The goods-producing industries in 1985 will provide jobs for little more than one-third of the working population in Ontario.

The total employment forecast for 1985 derived from these productivity figures also provides some indication as to the amount of latitude that may exist in the labour market at

Table III – Productivity Trends
(Average annual percentage increase)

	Output per man-hour		Output per Employee
	U.S. 1948-69	ECC 1970-80	TE & IA 1970-90
Agriculture	5.7	5.0	5.7
Forestry	–	5.3	3.8
Mining	3.8	3.9	4.8
Manufacturing	3.0	5.6	3.2
Utilities	5.9	7.8	4.2
Construction	1.3	2.8	3.0
Transportation	3.2	4.6	3.5
Communication	5.4		4.4
Trade	2.6	3.5	1.6
Finance, Insurance and Real Estate	1.9	1.7	1.1
Services	1.1	1.5	1.5
Public Administration and Defence	–	0.0	.9

Source: Projections by the ECC, by TE & IA, and by J. W. Kendrick.

Table IV – Industrial Structure, Ontario, 1985

	OUTPUT	EMPLOYMENT (three productivity projections)[2]					
	Real Domestic Product	I		II		III	
	(per cent)	(000's)	(per cent)	(000's)	(per cent)	(000's)	(per cent)
Goods-producing Sector	45.5	1,803	33.9	1,411	30.7	1,760	34.0
Agriculture	1.4	72	1.4	78	1.7	72	1.4
Other Primary	1.7	–	–	47	1.0	45	.9
Manufacturing	37.7	1,397	26.2	1,010	22.0	1,359	26.2
Construction	4.7	334	6.3	276	6.0	284	5.5
Service-producing Sector	54.5	3,066	57.5	3,183	69.3	3,418	66.0
Transportation, Communication and Other Utilities	12.9	318	5.9	281	6.1	334	6.5
Trade	13.1	808	15.2	721	15.7	919	17.7
Finance, Insurance and Real Estate	8.2	207	3.8	212	4.6	230	4.4
Community, Business and Personal Service	16.4	1,733	32.6	1,647	35.9	1,647	31.8
Public Administration and Defence	3.9	–	–	322	7.0	288	5.6
TOTAL	100.0	4,869	91.4(1)	4,594	100.0	5,178	100.0

[1] *U.S. productivity measures did not cover all sectors of the economy. The total of 91.4 per cent is based on the 1972 proportion of total employment contributed by industries for which U.S. productivity measures were available.*

[2] I *U.S. productivity trends, 1948-69.*
II *ECC projections, 1970-80.*
III *TE & IA projections, 1970-90.*

that time. The employment forecast based on TE & IA productivity projections indicates a total demand for workers that exceeds the total labour force as estimated by Dallimore and Lampert,[4] who suggest that about 4,935,000 persons will be available for employment in 1986, assuming a net migration gain of 60,000 per year. The forecast of total employment in Ontario based on the U.S. experience during 1948 to 1969 also indicates a potentially tight labour market in the mid-1980's. The employment forecast based on productivity trends projected by the Economic Council of Canada for the period 1970-80 indicates a substantially lower demand for labour; hence, there could be some scope for a reduction in the work week in 1985 and possibly some increase in vacation time.

The proportion of total output generated by each sector is the alternative way of looking at the structure of the economy. The contribution of each industry – its value added – is equivalent to total wages, interest and rent paid, plus the profit or loss earned.

The industrial structure, by this measure, thus depends largely upon who directly benefits from the productivity gains realized. If all productivity gains are retained as higher wages, a structure close to the output projection for 1985 will be obtained. If, on the other hand, the productivity gains are passed on as less expensive products, one of the industrial structures based on employment may be more applicable. The most likely outcome is a structure between these two. In this event, wages would not be so high as they would be if productivity gains accrued to labour alone, nor prices so low as they would be if there were no direct benefits to labour.

IV – CONCLUSION

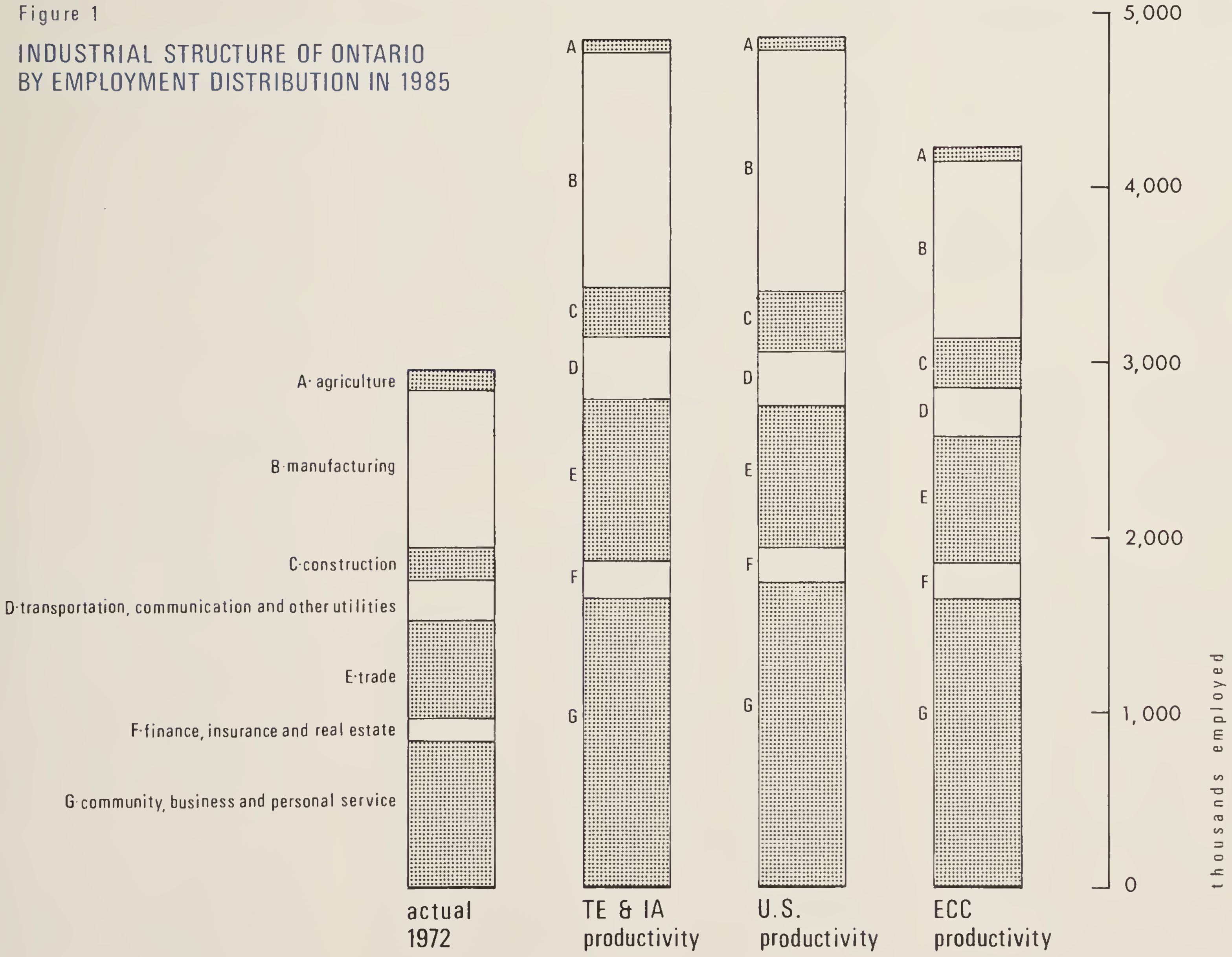
On balance, there appears to be every likelihood that the proportion of gross provincial product and of total employment contributed by the manufacturing and the primary industries will decline, mainly as a consequence of the continuing productivity gains achieved by these industries. Concurrently, there will be an increase in the relative contribution made by the service-producing sector (see Figure 1).

The changes in the relative importance of the various sectors will have an important effect on the labour market. The type of jobs that can be offered to the work force and type of skills that will be needed will change significantly.

The growth of the service industries is a characteristic of the post-industrial society. There is no suggestion that the output of goods will decline. The process of adjustment will not be dissimilar to that which has occurred with agriculture where output is as high or higher than ever before. In these circumstances Ontario should be alert to opportunities to develop domestic and international markets for its services.

Figure 1

INDUSTRIAL STRUCTURE OF ONTARIO
BY EMPLOYMENT DISTRIBUTION IN 1985



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[1] *It is interesting to note that the total output forecast by this method (weighted on a 1961 base) is very close to that obtained for 1985 by another method. See Dr. Clifford Jutlah's "A Long-Term Economic Forecast for Canada and Ontario",* Ontario Economic Review, *Vol. 11, No. 4. (Toronto: Queen's Printer, 1973).*

[2] *Productivity trends in the United States for 1948-1969 were presented by John W. Kendrick, Vice-President, Director of Economic Research, The Conference Board, in an address in New York, May 22, 1973.*

[3] *Economic Council of Canada, "The Years to 1980",* Ninth Annual Review *(Ottawa: Information Canada, 1972).*

[4] *D. C. Dallimore and B. Lampert "Demographic Trends in Ontario: Some Policy Considerations",* Ontario Economic Review, *Vol. 11, No. 5. (Toronto: Queen's Printer, 1973).*

The Economic Impact of the Mackenzie Valley Gas Pipeline Project

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I – INTRODUCTION

The ability of the Ontario economy to meet the economic and social priorities of the Province over the next ten years will depend to a considerable extent on the efficiency of the Canadian financial system in allocating funds to alternative demands for capital assets. It will also depend on the flexibility of capital markets in adapting to sudden sectoral changes in the demand for, and supply of, capital funds.

If unusually large capital demands arise in the industrial and public sectors, other sectors, such as small businesses and housing, experience greater difficulty in competing for necessary funds, and there may even be times when such sectors may not obtain the amount of funds considered socially desirable. It is important, therefore, to identify specific large investment projects that are likely to arise in the medium term, assess their economic impact, and determine their consequences for Ontario's social and economic objectives.

The proposed construction of the Mackenzie Valley Gas Pipeline (referred to as the MVGP throughout the remainder of this article) is one of a number of potential projects that will significantly increase the demand for funds in the medium term. It has been singled out for special study because it is an unusually large project, costing approximately $5 billion. There are three basic issues of interest concerning the impact of a project of this size:

1. There is a strong possibility of an appreciation of the exchange value of the Canadian dollar during the construction phase of the pipeline because of the expected large capital inflows that will be required for financing. Furthermore, upward pressure on the Canadian dollar could well be maintained after the construction is completed because much of the gas from the Mackenzie Delta would be exported initially to the U.S. market and would result in a substantial jump in the value of Canadian resource exports. There is, therefore, some concern that the project, through the appreciation of the Canadian dollar, would adversely affect the competitive position of Canadian export-and import-competing industries.
2. There is an additional concern that if construction takes place during a period of high economic activity, stress would be placed on Canadian industrial capacity, leading to upward pressure on prices, wages, and interest rates.
3. Because such a project would likely be successful in competing for financial capital and economic resources, it could displace resources intended for existing public-and private-sector economic activities. Growth opportunities in other sectors of the economy might, therefore, be restricted in the short run. Adjustments would have to take place in other industries, and a scarcity of funds might arise for social development capital.

II – THE ECONOMIC IMPACT OF THE CONSTRUCTION AND OPERATIONAL PHASES OF THE MVGP

The economic impact of the construction of the pipeline is determined by comparing two economic forecasts which were carried out with the aid of a modified version of the TRACE econometric model.[1] The first forecast is the "Basic Economic Forecast" to 1985,[2] which provides for total capital expenditures in energy developments of approximately $45 billion between 1973 and 1980. Such expenditures include: the continuation of the present rate of oil and gas exploration, development, processing, and distribution; the forecast development of investment expenditures for Ontario Hydro and other electric utilities; and a moderate rate of development of the Athabasca tar sands. The second forecast is based upon the above energy developments, plus the estimated investment expenditures required for the construction of the MVGP and the additional revenues expected from the export of the Mackenzie Valley gas. With the aid of the TRACE model, therefore, two pictures were obtained of the economy – one that excludes the pipeline, and one that includes it.

Certain assumptions had to be made with respect to the construction and operation of the pipeline.[3] In the first set of assumptions it was assumed that construction would take place over a period of five years, beginning in 1976, with the major portion to be completed in the first three years. At full capacity the pipeline would deliver 4.0 billion cu. ft. of natural gas per day. It was further assumed that initially, approximately 60 to 65 per cent of the utilized pipeline capacity would be for Canadian gas with the remainder being U.S. gas from Prudhoe Bay in Alaska. The total cost of the project amounts to approximately $5 billion, measured at current prices. The financing was assumed to involve a 51/49 split between Canadian and U.S. equity ownership, and a 4/1 debt-equity ratio. Comparisons in this section are also based on the assumption that 67 per cent of the debt was financed from abroad. The import content was assumed to be 20 per cent of the total cost, with the goods and services imported for the construction of the pipeline being financed from the funds borrowed abroad. It was further assumed that the gross value of gas exports will be about $1 billion per year. This assumption was based on the view that initially all Canadian gas would be exported during the time period under consideration at a delivered price of $1.00 per mcf.[4]

The impacts of alternative sets of assumptions concerning foreign-domestic mix of debt financing, different import content, and a later date of construction are considered in later sections.

The Impact on Business Gross Fixed Capital Formation

The construction of the MVGP would result in large direct increases in investment in non-residential construction and in machinery and equipment, but in addition the increased business activity and income generated by the pipeline construction would induce additional investment in other sectors of the economy. During the years of construction, real non-residential construction spending increases could average about 6.5 per cent, as compared with about a 4.0 per cent annual average increase indicated in the *basic forecast.* With construction completed, a reduction in spending for non-residential construction occurs. This can be compared with a relatively flat performance in the *basic forecast* during this period (see Figure 1).

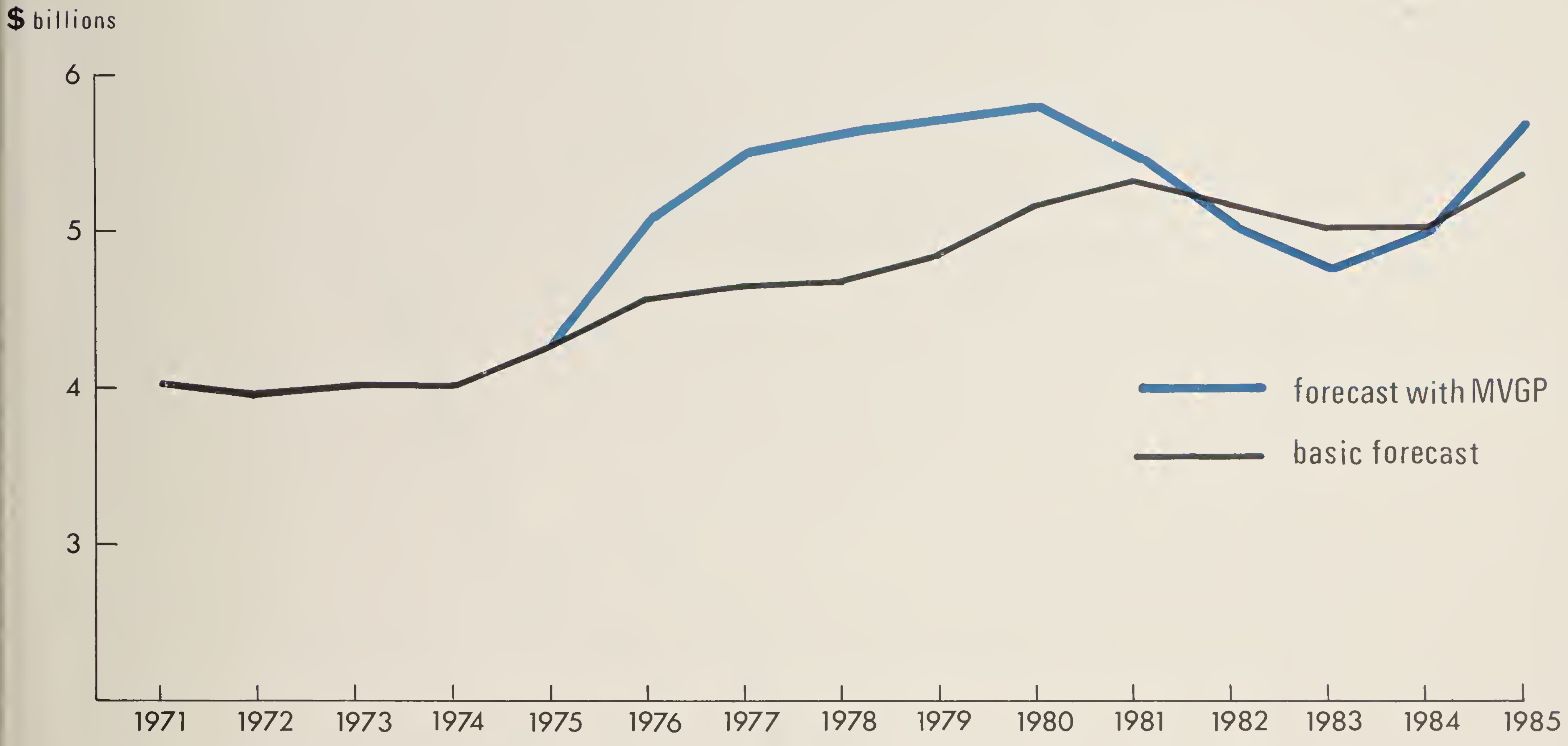
While a pronounced investment cycle occurs in non-residential construction in the *basic forecast,* the effect of the MVGP project is to increase the amplitude of this cycle. The peaks become higher and the troughs become deeper (see Figure 1). Non-residential construction spending (including the MVGP), therefore, becomes a more unstable factor in the economy than it otherwise would be, inducing greater instability in the economy.

A similar pattern is indicated for investment in machinery and equipment. In this case, the cyclical pattern is less extreme, but the construction of the pipeline results in a more pronounced cycle, making machinery and equipment investment an additional economic destabilizing factor in the pipeline construction period (see Figure 2).

The Impact on Long-Term Interest Rates

The *basic forecast* indicates that long-term interest rates could continue to increase through the early part of the 1970's, reaching a peak in 1975. They would then gradually

Fig. 1 – Non-Residential Construction Spending in Constant (1961) Dollars



decline throughout the remainder of the forecast period. With the assumed method of financing, the construction of the pipeline would postpone this forecast reduction. However, the simulations indicate no more than a 26 basis points rise in rates. The overall result is that slightly higher interest rates can be expected during the construction phase of the pipeline, with a subsequent return to a more "normal"[5] situation (see Figure 3). It is important to note, however, that the impact on interest rates depends to a great extent on the method of financing, which is considered in a later section.

The Impact on Prices

The increase in business activity initiated by the construction of the pipeline will result in some upward pressure on prices. Unfortunately, because of the assumed timing of the project, the cyclical nature of price level changes indicated by the *basic forecast* is reinforced by the project. The *basic forecast* indicates a rise in the rate of price level increase until 1977. The construction of the pipeline strengthens this rise in prices in the latter part of the 1970's (see Figure 4). In the *basic forecast* price increases average 4.8 per cent per year in 1978-79. This would jump to 5.6 per cent if the pipeline were constructed.

The Impact on the Balance of International Payments and the Exchange Rate

During the construction phase of the pipeline there would be an increase in long-term capital inflows of approximately $4.0 billion. In the early stages, the largest part of the increase would arise from the foreign borrowing required for the financing of the project. In the later stages of construction, the increased inflow is a result of the rise in Canadian long-term interest rates and an acceleration in investment spending generated indirectly by the construction of the pipeline. The increased investment spending will place even greater demands on a Canadian capital market that will be severely strained to meet the borrowing requirements of governments, housing, and business.[6] The additional domestic financing demands due to the MVGP could mean that corporations and perhaps some governments might have to borrow in foreign markets to a greater extent than they would otherwise have had to.

The increase in long-term capital inflows would exert strong upward pressure on the value of the Canadian dollar. However, at the same time, there would be some downward pressure because of an increase in the deficit on current account.

The increased business activity generated by the pipeline construction, along with the rise in domestic prices during the later stages of construction, results in a larger increase in imports of goods and services than that predicted in the *basic forecast.* The net result is a reduction in the merchandise trade balance and a slight increase in the service transactions deficit, resulting in an overall increase in the current account deficit which very nearly compensates for the increase in long-term capital movements. The outcome is that the appreciation of the Canadian dollar is held to approximately 1.0 per cent during the construction period. Canadian exports of goods and services, therefore, should not be affected to any appreciable degree by the indirect economic effects of the construction of a gas pipeline from the

Fig. 2

Investment in Machinery and Equipment in Constant (1961) Dollars

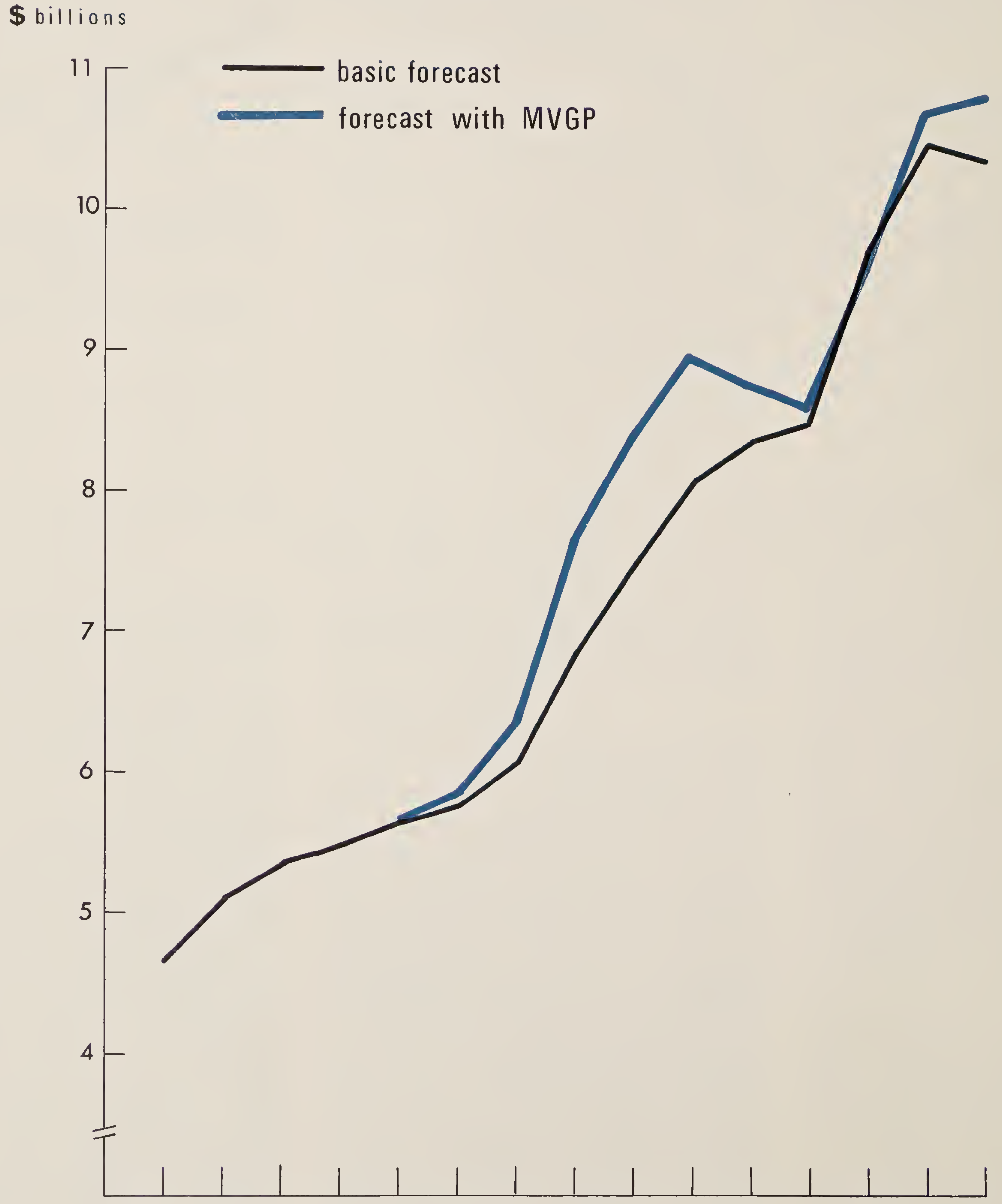


Fig. 3 – Interest Rate on Government of Canada Bonds (over 10 years)

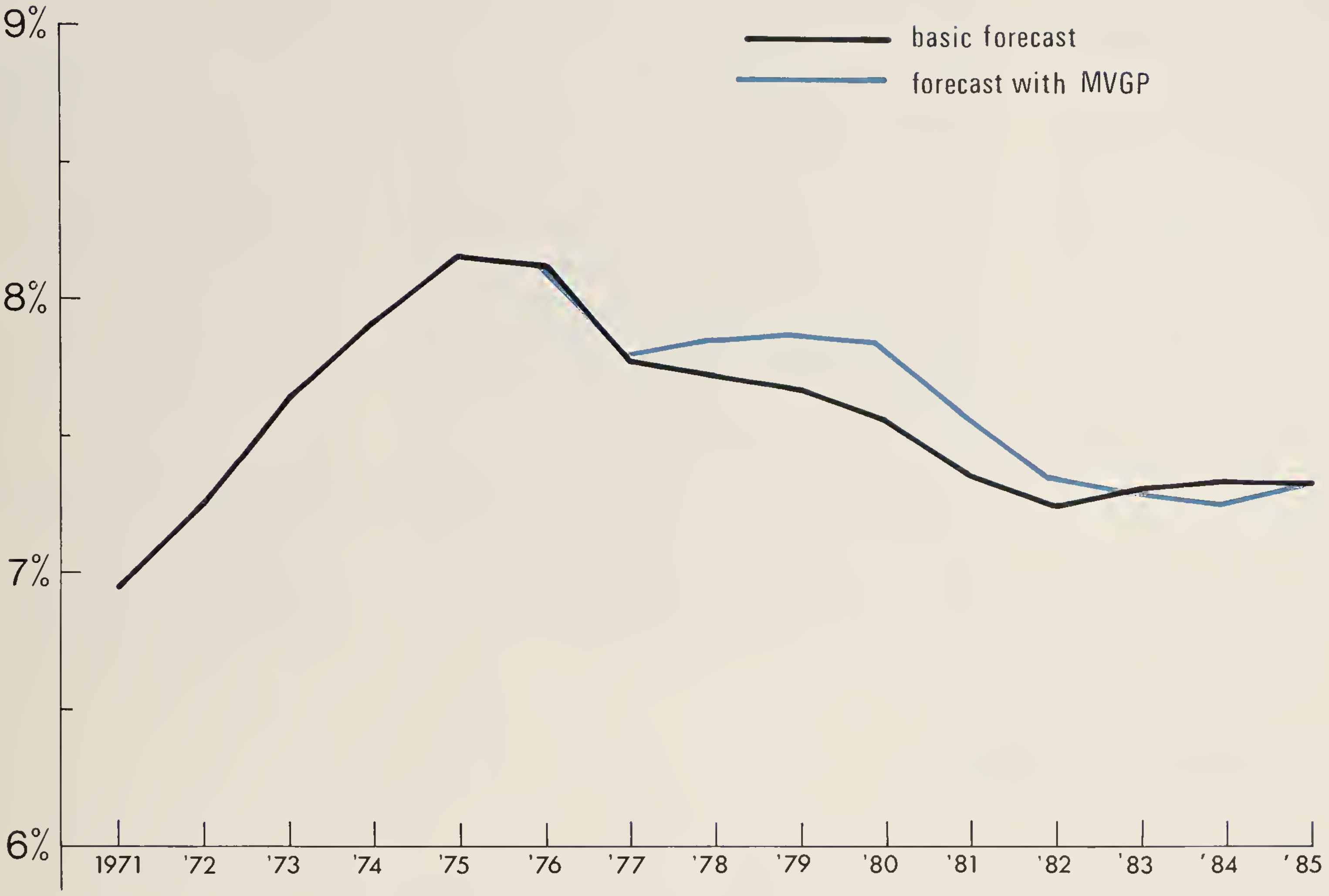
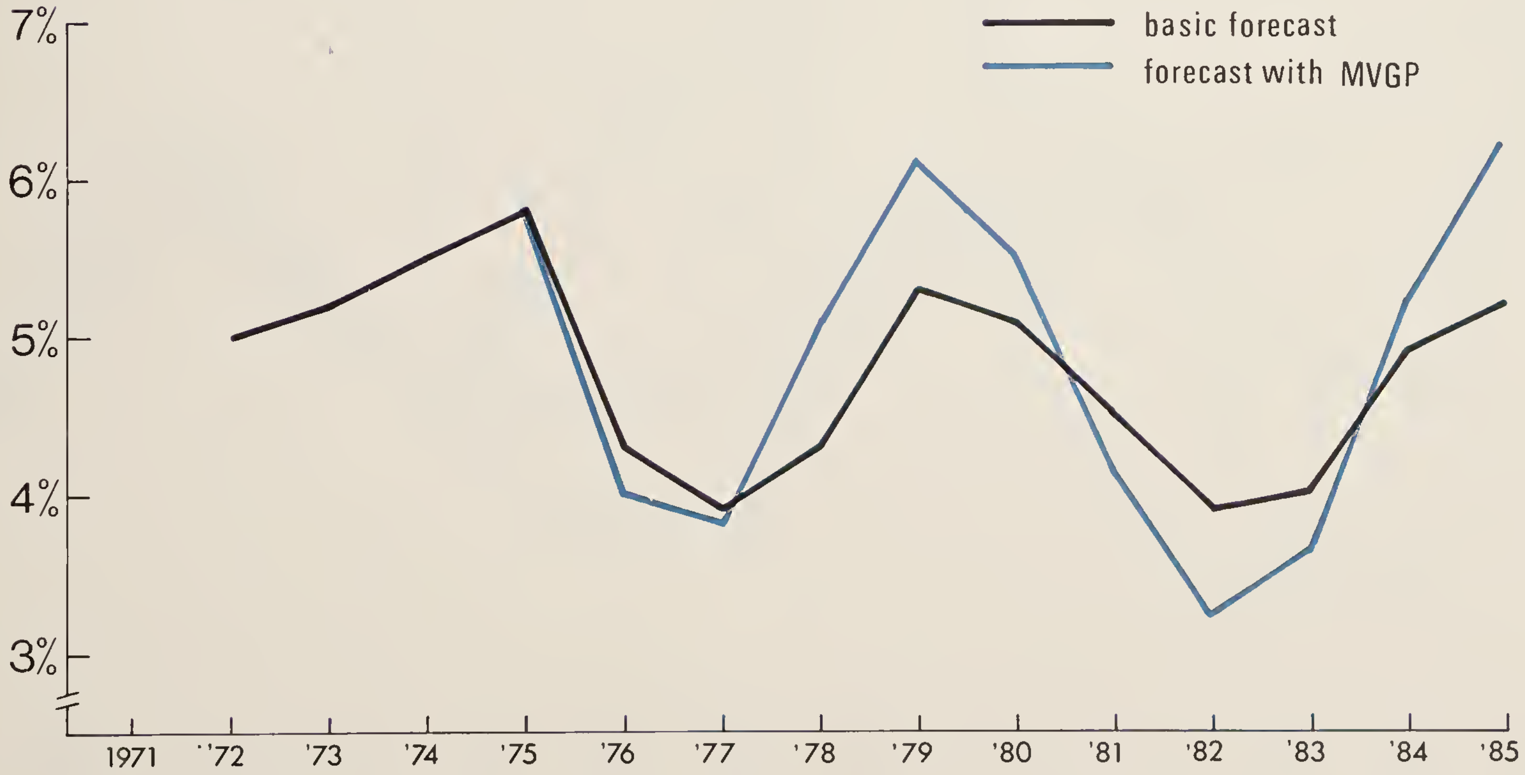


Fig. 4 – Change in GNP Implicit Price Deflator



Mackenzie Delta. However, this would hold true only under the assumptions of financing and import content given above.

With construction completed, there would be a jump in exports, due to the additional sales of gas to the United States. This gain in exports would exert some upward pressure on the Canadian dollar, but, at the same time, long-term capital movements should begin to taper off because the large financing aspects would have come to an end and because interest rates would have fallen back to "normal" levels. There might also be an increase in the service transactions deficit arising from the increase in income paid to non-residents holding pipeline bonds and shares. The overall result would be that in the post-construction phase there would be little upward pressure on the Canadian dollar as a result of the MVGP operations.

The Impact on Employment and the Unemployment Rate

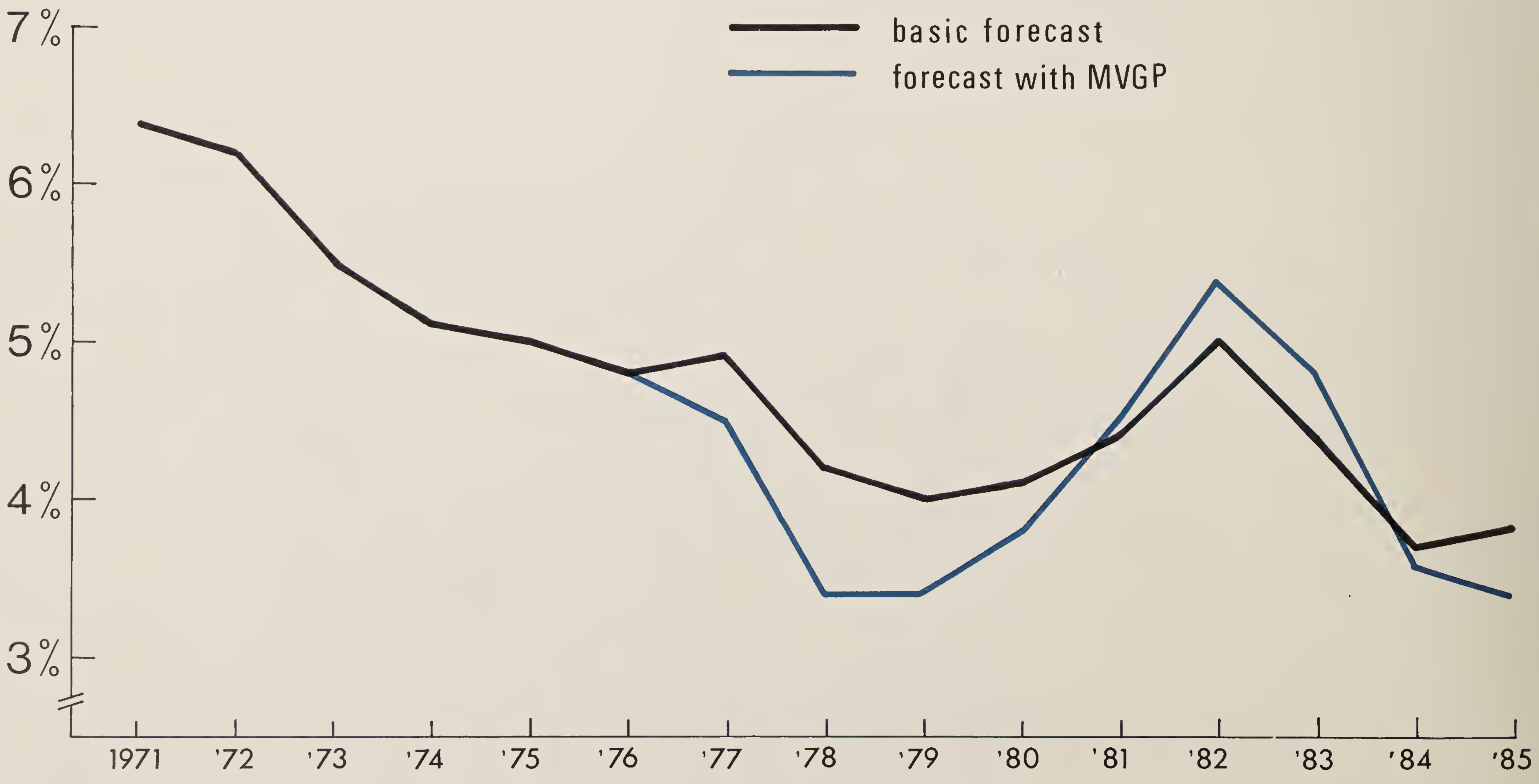
The number of jobs directly created during construction of the MVGP has been estimated at 7,000[7], and there will also be large indirect and induced employment effects. From 1976 to 1980 the *basic forecast* indicates an average unemployment rate of 4.4 per cent, with a low of 4.0 per cent in 1979. With the construction of the MVGP, the average unemployment rate during this period falls to 4.0 per cent, with a low of 3.4 per cent occurring in both 1978 and 1979 (see Figure 5). Labour markets could be tight from 1978 to 1980 – presenting a different set of labour supply problems from those experienced in the past few years. However, with construction over, employment would be adversely affected, and the unemployment rate could jump to an average of about 5.0 per cent in the early 1980's. This rate can be compared with an average rate of 4.6 per cent in the early 1970's if the pipeline is not constructed. The projected path of the unemployment rate again emphasizes the degree of economic and social instability that can result from capital projects the size of the MVGP unless suitable governmental policy offsets can be applied.

The Impact on GNP

The overall effect of construction and operation of a gas pipeline from the Mackenzie Delta would be to increase investment in non-residential construction and machinery and equipment during the construction phase of the project by $6 to $7 billion in real terms. At the same time, there could be some increase in imports. The overall result would be to raise the growth rate of real GNP in the period of construction slightly above the forecast rate in an economy without the MVGP. When construction is completed, there would be a reduction in investment activity, but the additional growth in the gas exports offsets to some extent the reduction in investment spending. The aggregate effect could be a very slight reduction in the economy's real growth rate, compared with an economy without the pipeline during the first few years after construction.

Although the annual average forecast growth of GNP differs very little during the forecast period, with or without the construction of the

Fig. 5 – Unemployment Rate



pipeline, there is a difference in the pattern and timing of that growth. With the inclusion of the MVGP, the peaks of business activity are higher and the troughs lower (see Figure 6).

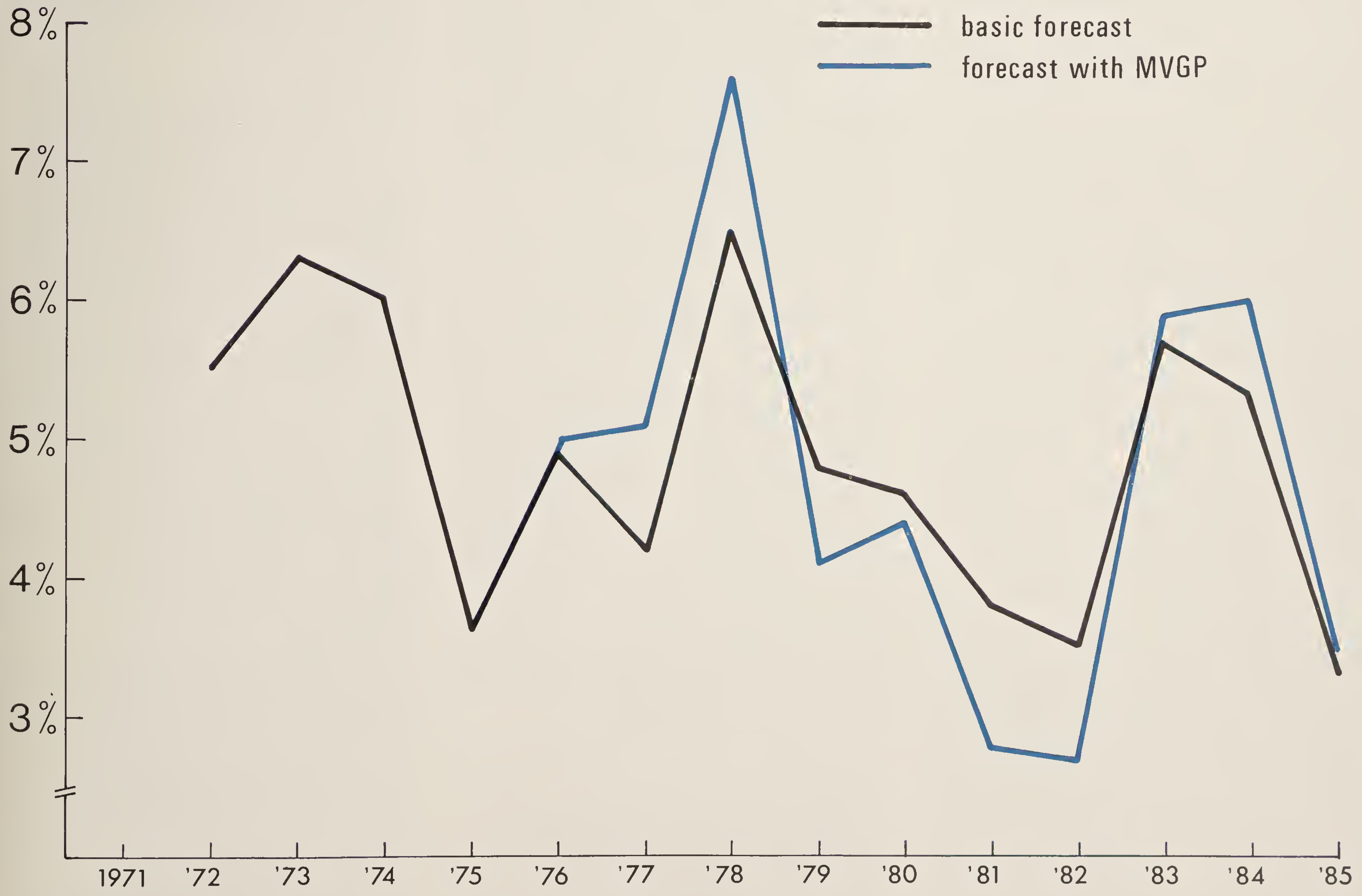
III – THE CONSEQUENCES OF INCREASING THE IMPORT CONTENT

It has been suggested that the adverse economic impacts of the pipeline could be lessened by increasing the import content of the pipeline construction. The essence of the argument is that if all imports were purchased by funds borrowed abroad, there would be a reduction in the long-term capital inflow, compared with a case of lower import content. From this would flow reduced upward pressure on the value of the Canadian dollar and less disruption to the Canadian economy.

To determine the validity of this argument, a simulation was carried out in which the import content was doubled over that of the previous simulation to 40 per cent of the capital cost of the project. All other assumptions remained unaltered. It should be noted, however, that even with this relatively high import content there would be some direct increase in net long-term capital inflows, compared to an economy without the pipeline. This would always be the case unless the import content became as great as the amount borrowed abroad, which is rather unusual in construction projects of this kind.

With the higher import content, total investment spending follows the same path as indicated in the case with 20 per cent import content (but at a slightly lower level during the construction phase). This would be the case because the replacement by imports of domestic inputs used in the pipeline construction would result in a reduction in indirect investment. Investment still contributes to instability, but not to the same degree as would be the case with a lower import content. To this extent, the substitution of imported materials would lessen the destabilizing impact of the pipeline on the national economy.

Fig. 6 – Growth Rates in Real GNP



Long-term capital movements would also follow the same path as in the 20 per cent import content case (but again at a slightly lower level). Therefore, the upward pressure on the Canadian dollar would not be so great as it would be in the 20 per cent export content case. Even with a doubling of the import content from 20 per cent to 40 per cent of the capital cost, there would be an increase in business activity, compared with an economy without the pipeline. This would result in increased imports of goods and services, with an increase in the current account deficit. Of course, the increase would not be so great as that in the 20 per cent import content case, yet it would be of sufficient size to completely compensate for the increase in long-term capital inflows. There would be, therefore, little or no tendency for the Canadian dollar to appreciate; and as a result, exports would be slightly higher in this case than they would be in a situation where the import content of the pipeline were only 20 per cent. The higher relative level of exports would furthermore make up for the reduction in investment spending, so that business activity of the 40 per cent import content case would be similar to, but more balanced than, the level and path of business activity of the 20 per cent content case.

The impact on prices, interest rates, employment, and the unemployment rate are also similar. Price increases during construction could average 4.9 per cent in both the 20 per cent and 40 per cent import content case, up from the projected average of 4.6 per cent annual rate of increase during this same period (1976-1980) in an economy without the pipeline. Unemployment could average 4.0 per cent in the period during construction, jumping to a 4.8 per cent to 4.9 per cent annual average in the three years immediately after construction ends. (In both import cases, the unemployment rate, at its lowest level, could fall to 3.4 per cent.) Interest rates could average 10 to 15 basis points higher in both cases, compared with rates projected in the *basic forecast.*

The results of this particular simulation, therefore, indicate that the aggregate economic impact of the construction and operation of the pipeline will not be reduced by any appreciable amount by increasing the import content of the pipeline construction. Aside from the issue of balance between imports and exports and the stability of the investment goods industries, there would be just as much pressure on the country's productive capacity, price level, labour markets, and interest rates if the import content of the project were 40 per cent, as there would if the import content were 20 per cent.

IV – THE CONSEQUENCES OF INCREASING THE PROPORTION OF FOREIGN DEBT

Under the first set of assumptions, 67 per cent of the long-term debt requirements would be obtained abroad. To determine the impact of increasing the proportion of foreign long-term debt, another simulation was run in which 100 per cent of the long-term debt was foreign financed. (All other assumptions remain as outlined in Section II.)

Increasing the proportion of foreign debt would have no impact on investment spending during the early construction phase of the pipeline. With 100 per cent foreign-debt financing, long-term capital inflows are, of course, larger and therefore there would be greater upward pressure on the exchange value of the Canadian dollar. As indicated in Section II, under the first set of assumptions, which includes 67 per cent foreign-debt financing, the Canadian dollar could appreciate by 1 per cent during the early construction stage, compared with an economy without the pipeline. By increasing the proportion of foreign-debt financing to 100 per cent, there could be at least a 2 per cent appreciation. The growth of exports would be reduced to some extent, with some increase in the level of imports. However, the resulting increase in the current account deficit would prevent the dollar from appreciating as much as might be expected.

Under conditions of high foreign-debt financing, because of reduced export activity, increased imports, and essentially unchanged investment spending, there would be a slight slowdown in business activity in the early stages of construction, compared with a situation where the proportion of foreign debt were less. This shows up in the projections of a slightly higher unemployment rate,[8] marginally lower interest rates, and a lower rate of inflation.

As the main financing aspects of the pipeline construction come to an end, investment activity in general would increase with the lower interest rates and greater availability of domestic funds for investment. In the post-construction phase, the economy would closely resemble the situation in which the financing of the pipeline were carried out with a smaller proportion of foreign long-term debt.

V – THE CONSEQUENCES OF INCREASING THE MONEY SUPPLY DURING CONSTRUCTION

Given the assumptions that 51 per cent of the equity will be issued in Canada, that 33 per cent of the long-term debt is to be domestic debt, and that substantial bank loans will be required, capital markets would be tight during the time required to finance the project.[9] In order to make it somewhat easier to carry out the domestic financing, there might be a tendency on the part of the federal government to increase the money supply at a greater rate than that assumed for the above simulations and that for the *basic forecast.* There also exists the possibility that the federal government would purchase some or all of that part of the long-term debt which is issued in Canada. In order to lessen the impact on domestic capital markets, it would seem likely that federal government purchases of this debt would be financed by increases in the money supply.

In order to determine the economic impact of such an increase in the money supply, a simulation was run in which the rate of increase in the money supply was accelerated to take into account the increased domestic debt load required by the MVGP. It was assumed that after the financing phase was completed, the rate of increase in the money supply would be reduced to a constant rate of 10 per cent per year.[10]

If the money supply were increased in the manner indicated above, a larger proportion of domestic financing demands would be met in this case than that in a situation where the money supply were not increased, and business activity would increase accordingly. Because of this greater demand, a severe strain would be placed on domestic plant capacity, and an acceleration in the rate of inflation would occur. In the last three years of construction, 1978-80, increases in the GNP Implicit Price Deflator would average 6.4 per cent per year under the assumption that the money supply increased by an amount equivalent to the increase in the domestic debt load of the MVGP. This compares with a 5.6 per cent rate of increase if the increase in the money supply were not to take account of this additional domestic debt financing, and a 4.9 per cent average rate of increase in an economy without the pipeline.

To discount this higher inflationary factor, interest rates could be approximately 65 basis points higher towards the end of the construction period, compared with those rates in the *basic forecast.*[11] It would not be until the mid-1980's that they would move down to approximately the levels that would prevail if money supply were kept at a constant rate of increase.

Investment spending would move up slightly with the greater availability of domestic funds. Imports would increase somewhat with the increase in investment activity and higher domestic prices. The price rise would also result in a slowdown in exports. Because of the increases in imports and reductions in exports, the upward pressure on the exchange rate would be fully compensated for, so that during the period of construction and financing the exchange rate would not be affected.

Of all the simulations considered in this study, the one described above resulted in the greatest instability in the economy. However, it should be pointed out that the resulting impact depends to a considerable extent on the phase of the business cycle when the construction and the increase in the money supply take place. The *basic forecast* indicates that from 1976-80 the economy moves from a period of a relatively low business utilization rate to one of a relatively high utilization rate. Imposing a higher rate of increase in the money supply in this period results in higher rates of inflation and higher interest rates as indicated above. However, larger increases in the money supply during a period of slackness in the economy would quite likely give different results from those recorded here, and might be an appropriate policy.

VI – THE CONSEQUENCES OF POSTPONEMENT

Because of the economic instability generated by a project as large as the MVGP (if initiated in the mid-1970's), and because of the unlikelihood that frontier gas will be required for domestic use until at least the mid-1980's, it is of some interest to determine the economic impact of the pipeline if the construction were postponed for a few years. Furthermore, the *basic forecast* indicates that from 1978-79 to 1982 the economy could move from a period of a relatively high capacity utilization to a period of a relatively low capacity utilization. By simulating a postponement of construction to 1979, we can also determine if the economic impact of the pipeline differs from the case where construction occurs during a different phase of the business cycle. Accordingly, a simulation was run to obtain a picture of the economy if construction of the pipeline did not begin until 1979. It was assumed that, because of inflation, the cost of the project would rise to $5.8 billion if started in 1979. All other assumptions were unchanged from those in Section II.

As in the previous simulations, large increases would occur in investment spending in non-residential construction and in machinery and equipment. The rate of inflation also rises slightly because of the increase in business activity, and this increase in inflation is incorporated in interest rates so that long-term interest rates also rise slightly. In both cases, however, the rise would not be so great as that in the previous simulations, reflecting the different phase of the business cycle in which construction would begin. For the five years of construction, 1979-83, the GNP Implicit Price Deflator would average 4.8 per cent per year, while in the *basic forecast* the Deflator averages 4.6 per cent increase per year. The long-term interest rate would rise by only 10 to 15 basis points – one half the rise that would occur in interest rates with construction beginning in 1976.

Long-term capital inflows would follow closely the path of long-term capital inflows in an economy with no MVGP, but at a higher level. There would, therefore, be some upward pressure on the value of the Canadian dollar, and a slight appreciation of about 1 per cent early in the construction phase. Again, the appreciation would not be so great as might be expected because the upward pressure would be counteracted by a larger current account deficit accompanying the increase in economic activity initiated by the pipeline construction.

The unemployment rate, as expected, would fall, averaging 4.0 per cent during the first half of the 1980's, compared with 4.3 per cent in an economy without the pipeline, and with the 4.3 per cent that would exist in an economy in which the pipeline construction began in 1976.

VII – THE IMPACT ON CANADA'S CAPITAL MARKET

There has been some concern expressed that the financing of a $5 billion project would place undue strain on Canada's capital markets, which might retard development of other sectors in the economy. It is of some interest then to note what changes in the financial picture could take place as a result of the construction of the MVGP. This is examined here in terms of Canada's overall capital requirements, the availability of domestic savings, the financial position of governments, the financing of business investment in plant and equipment, and residential mortgage financing.

It has already been pointed out that although such a large project would involve an increase in direct employment of only 6,000 to 7,000 man-years during the construction phase, indirect and induced increases in employment would be quite substantial in the short term. In the same way, the increase in gross investment would not be just $5 billion, because large increases in investment spending would be generated in sectors supplying materials and services to the pipeline; other increases in investment would also occur because of the general rise in business activity. The results of the various simulations that were run indicate that during the assumed construction period, 1976-80, gross investment by all levels of government and the private sector on housing, plant, equipment, and inventories would increase by $17 billion – from $195 billion in the *basic forecast* (an economy without the MVGP) to $212 billion in an economy that included the MVGP.

The increases in domestic savings generated by the rise in economic activity would be: $2 billion from the personal sector and $11 billion from capital consumption allowances, undistributed corporate profits, and government savings. The increase in domestic savings would, therefore, fall short of the $17 billion increase in investment requirements by $4 billion. This shortfall would be made up by an increase in the use of foreign savings in the form of net inflows of long-term debt and equity.

The financial position of governments would improve in an economy with the MVGP if there were no change in the rate of growth of government spending during the construction period over that assumed for this study.[12] Because of the increase in incomes and spending, especially investment spending, the combined governments in Canada in the 1976-80 period would register an increase in their total surplus from $0.5 billion as indicated in the *basic forecast* to $7 billion if the MVGP were built. Most of the increase in government revenues would come from increases in indirect tax revenues (approximately $4 billion) and higher revenues from personal and corporate income taxes. Thus, the cash needs of the combined governments would not be so great as that indicated in the *basic forecast*, and therefore they would not have to finance in capital markets as heavily as indicated for an economy without the MVGP.[13]

The private business sector presents a different picture. Without the MVGP, the private business sector could require about $162 billion in the 1976-80 period to finance inventories and capital expansion. However, in an economy with the pipeline, the private business sector will require $179 billion – an increase of $17 billion. In the 1971-75 period, it is estimated that private sector capital consumption allowances and undistributed profits would account for 63 per cent of business capital requirements. In an economy without the MVGP, the proportion would jump to 72 per cent.[14] However, although in the future private business would be relatively less dependent on capital markets to finance its investment requirements than in the past, in an economy that included MVGP the proportion of internal financing would increase to only 66 per cent. Much of the $17 billion in additional capital required, therefore, would have to be financed through Canada's capital markets and/or foreign borrowing.

Additional mortgage financing would also increase the strain on domestic capital markets. The estimated shortfall of mortgage funds, which averages $1 billion per year in the 1973-85 period in an economy without the MVGP, would increase if the pipeline were constructed.

It would appear, then, that if construction of the pipeline goes ahead, domestic capital markets would be under considerable strain during the construction phase. In comparison with an economy that did not include the pipeline, a situation could arise in which the financing needs of governments would not be so great, while the requirements of the business sector would be much greater, and the requirements for mortgage financing slightly larger. The financial picture that develops is one in which there would be much stronger competition for the available long-term funds during the period in which the pipeline were constructed. Under such conditions, some demanders of funds – small business, new ventures, and housing – might not be as adequately financed as society would want.

VIII – SUMMARY AND CONCLUSIONS

A large investment project such as the MVGP would induce substantial increases in investment spending, employment, and economic activity in general. Unfortunately, these would be only short-run impacts and would be reversed when the construction period ended. Such a large project, then, would create a certain amount of economic instability and, therefore, cause some economic and social disruption.

During the construction phase of the pipeline, some strain would be placed on plant capacity within the economy and there would be some upward pressure on prices, as well as interest rates. There would be only a slight appreciation of the exchange rate and therefore such a project would not deal a great blow to Canada's exporting-or import-competing industries. The "costs" of the project in terms of price, interest rate, and exchange rate pressures do not appear to be too excessive and would last only during the construction phase.

There is no doubt, however, that Canadian financial institutions would be hard pressed to meet all domestic financing requirements during the period of construction. The financial needs of both large and small business, governments, and the housing industry would not be as adequately met compared to the situation in which the pipeline were not constructed. Furthermore, the period of construction would be characterized by tight labour markets, followed by relatively large increases in unemployment when construction comes to an end. Both tight labour markets and tight financial markets could lead to the postponement, or even a permanent setback, of development in some sectors of the economy. This would especially be the case if other large energy or natural resource developments were initiated upon completion of the MVGP. The implications of such a situation would result in a considerable reduction in the options available for other economic development strategies as well as options for other economic and social policy objectives.

If domestic gas requirements grow to the extent that the Mackenzie Delta gas is required by the 1980's and the construction of the pipeline proceeds, then government policies and planning will be required to reduce the instability and disruption that could result. There is certainly a need to ensure that the construction of the pipeline would not occur at the same time as other major projects, such as a more intensive development of the Alberta tar sands. If such developments were bunched to any extent, the large capital expenditures and financing requirements would lead to serious economic disruption.

Usually in a situation in which there is a sudden economic expansion followed by a period of relative slack, monetary and fiscal policy are employed to smooth out the growth path of the economy. Unfortunately, these traditional tools of policy do not appear too promising in this case. If a restrictive monetary policy were followed during the construction period to keep the expansion in hand, a tight financial market situation would become even tighter. This would mean larger foreign capital inflows and a greater appreciation of the Canadian dollar. It would also mean reduced development in such sectors as housing, transportation, and manufacturing. On the other hand, a more accommodating monetary policy to ease the strain which financial institutions would be undergoing at this time could result in even greater instability in the form of higher inflation rates and higher interest rates. The monetary authorities would have to tread a fine line with monetary policy during the construction period, resulting in the loss of considerable policy flexibility.

While fiscal policy appears to be the only alternative, it has some disadvantages in that it would result in a deliberate shift of consumption and investment out of the private sector to make way for the pipeline. To cool off the economy during the construction period, corporate and personal tax rates could be raised, and reductions made in the rate of increase in government spending. Governments could then increase spending and cut taxes after the construction period to ease the relative slack that would occur in the post-construction period. But, such a policy would result in cutbacks in government services that are socially or economically desirable, and taxes would need to be increased to an extent that would postpone or perhaps even reduce economic development in other sectors of the economy.

Furthermore, the simulations considered in this study indicate that neither changing the import content of the pipeline nor changing the proportion of foreign debt would make the situation easier to bear. The economic impact of the construction and operation of the pipeline would not be reduced to any appreciable extent by increasing the import content of the pipeline, and raising the proportion of foreign debt would result in a greater appreciation of the Canadian dollar, with some reduced growth of exports.

The important issues that have emerged from this study are that the construction of the MVGP would not result in excessive increases in prices, interest rates, or the exchange rate. The problem areas, on the other hand, appear to be:

1. Some tightness within the capital market, resulting in difficulties for some sectors of the economy in obtaining the amount of funds which the community may feel to be socially desirable.

2. The tightness that would develop within labour markets during the construction of the pipeline and that could well remain if other large projects come on-stream immediately after completion of the MVGP. Such tightness would result in labour shortages in some skill areas and serious bottlenecks would no doubt arise.

The summary of the economic impacts of different policy options of financing, import content, and construction periods are presented in the Appendix to the article.

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[1] *TRACE is an econometric model which was developed by the Institute for the Quantitative Analysis of Social and Economic Policy at the University of Toronto.*

[2] *See Dr. Clifford Jutlah, "A Long-Term Economic Forecast for Canada and Ontario",* Ontario Economic Review, *Vol. 11. No. 4 (Toronto: Queen's Printer, 1973).*

[3] *Assumptions concerning the construction and operation of the pipeline are based upon a survey of the available literature and public statements regarding the MVGP project.*

[4] *The delivered price of $1.00 per mcf was based on the wellhead prices included in the existing contracts between Imperial Oil and two U.S. pipeline companies and a tariff rate which covers depreciation, direct operating expenses, interest on debt corporation income taxes, and a 14 per cent return on the book value of equity. For further details on the pricing of the delivered gas, see John Helliwell, Department of Economics, University of British Columbia, "More on the National Economic Effects of Arctic Energy Developments", mimeo.*

[5] *Normal in the sense of being very similar to the rates indicated in the* basic forecast.

[6] *See* Jutlah.

[7] *According to V. L. Horte, President, Canadian Arctic Gas Study Limited, in a speech to the Toronto Society of Financial Analysts, April 18, 1973, "Direct employment during construction will amount to approximately 7,000; once operations commence, this will drop to about 600".*

[8] *For the first three years of construction, 1976-78, the unemployment rate in the* basic forecast *averages 4.6 per cent. In an economy with MVGP under construction and with 67 per cent foreign-debt financing, the unemployment rate averages 4.2 per cent; while in an economy with MVGP under construction and 100 per cent foreign-debt financing, the unemployment rate averages 4.4 per cent.*

[9] *Even without the construction of the MVGP, capital markets will be under some strain in this period. See* Jutlah.

[10] *It was assumed for the* basic forecast *and all simulations made in this study, other than the simulation in this section, that the money supply increased by a constant 10 per cent per year.*

[11] *In the simulations described in Section II, in which it was assumed that the MVGP is constructed, but money supply increases at the same rate as in the* basic forecast, *interest rates are 26 basis points higher, compared with those rates in the* basic forecast.

[12] *For more details concerning the estimates of government spending during this period, see* Jutlah.

[13] Ibid. *In the basic forecast, the cash needs of the governments are estimated to be about $21 billion in the 1976-80 period.*

[14] Ibid.

[15] Ibid.

Appendix

POLICY OPTIONS AND IMPACT

Mackenzie Valley Gas Pipeline, 1976-80 Construction Period

Impact	Basic Forecast	20% Import Content 67% foreign debt	40% Import Content 67% foreign debt	20% Import Content 100% foreign debt	20% Import Content 67% foreign debt with increase in money supply
Average long-term Government of Canada Bond Rate	7.76%	7.85%	7.91%	7.82%	8.04%
GNP Deflator (Average rate of increase)	4.6%	4.9%	4.9%	4.9%	5.5%
(Highest rate of increase in any one year)	5.3%(1979)	6.1%(1979)	5.8%(1979)	6.4%(1979)	7.2%(1979)
Exports (Total in billions of current dollars)	$211	$214	$215	$213	$217
Imports (Total in billions of current dollars)	$227	$233	$235	$233	$239
Long-term Capital Inflows (Total in billions of current dollars)	$15.0	$18.9	$18.3	$19.7	$20.2
Exchange Rate (Greatest rate of appreciation)	–	1.0%(1976)	nil	2%(1976)	nil
Unemployment Rate (Average)	4.4%	4.0%	4.0%	4.0%	3.5%
(Lowest rate in any one year)	4.0%(1979)	3.4%(1978-79)	3.4%(1978)	3.3%(1979)	2.7%(1979)

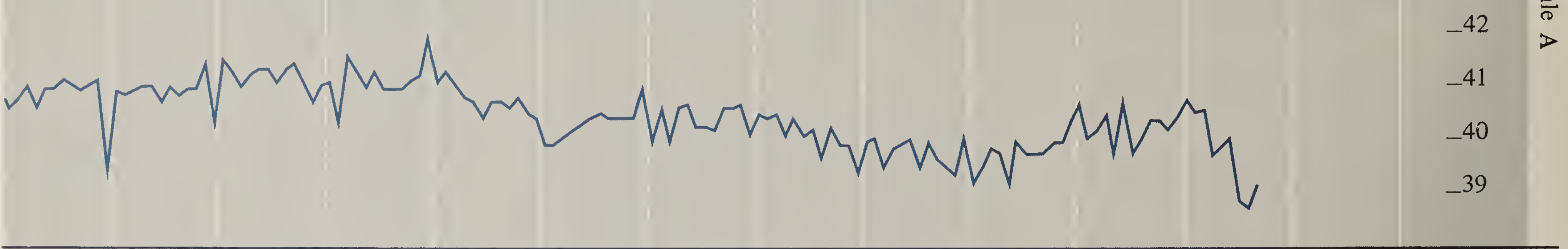
Mackenzie Valley Gas Pipeline, 1979-83 Construction Period

Impact	Basic Forecast	20% Import Content 67% foreign debt 1979 Start
Average long-term Government of Canada Bond Rate	7.40%	7.50%
GNP Deflator (Average rate of increase)	4.6%	4.8%
(Highest rate of increase in any one year)	5.3%(1979)	5.2%(1981)
Exports (Total in billions of current dollars)	$273	$276
Imports (Total in billions of current dollars)	$292	$299
Long-term Capital Inflows (Total in billions of current dollars)	$19.3	$23.4
Exchange Rate (Greatest rate of appreciation)	–	1%(1979)
Unemployment Rate (Average)	4.3%	4.0%
(Lowest rate in any one year)	4.0%(1979)	3.7%(1981)

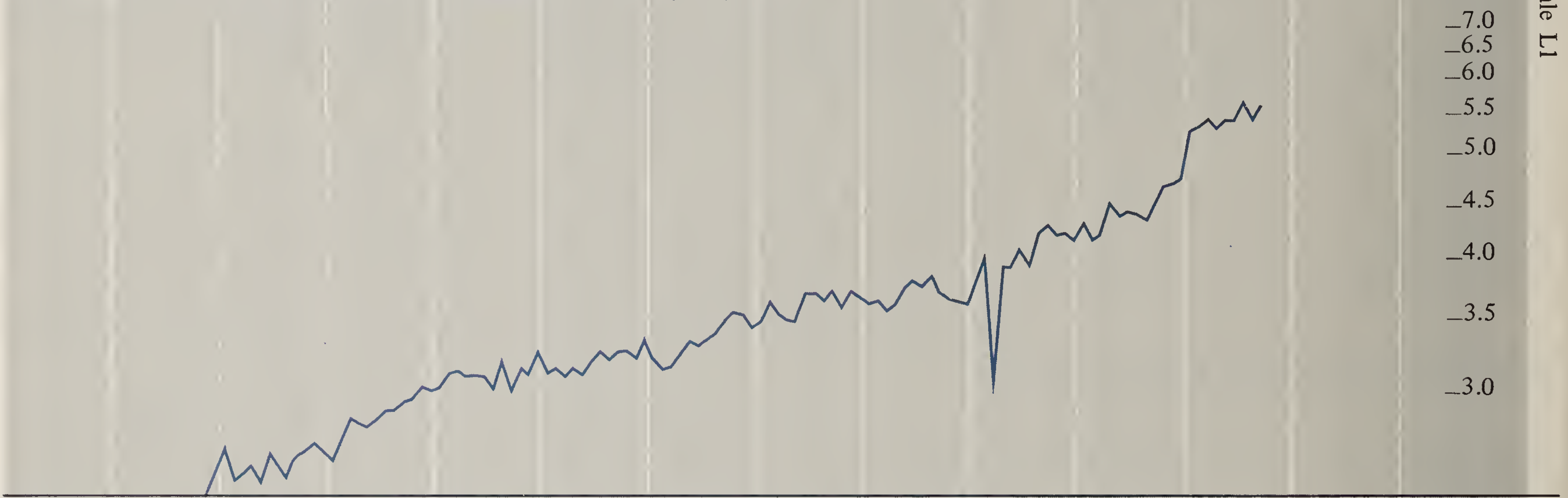
Selected Economic Indicators

Leading Indicators

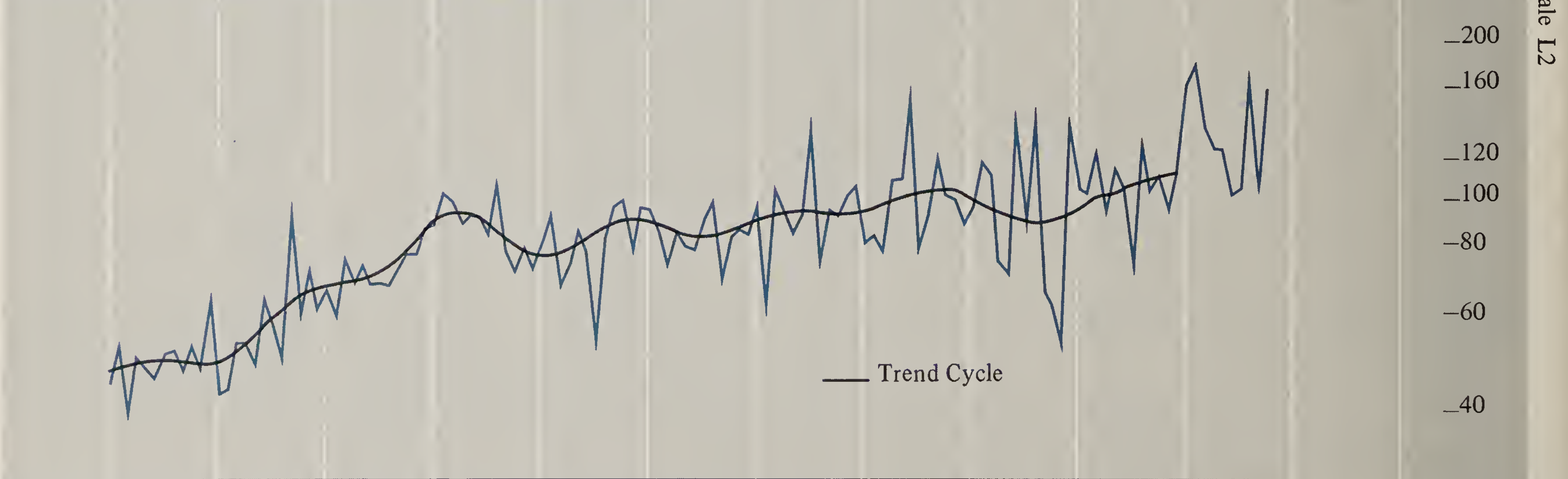
Average Weekly Hours Worked in Manufacturing, Ontario (Seasonally Adjusted)



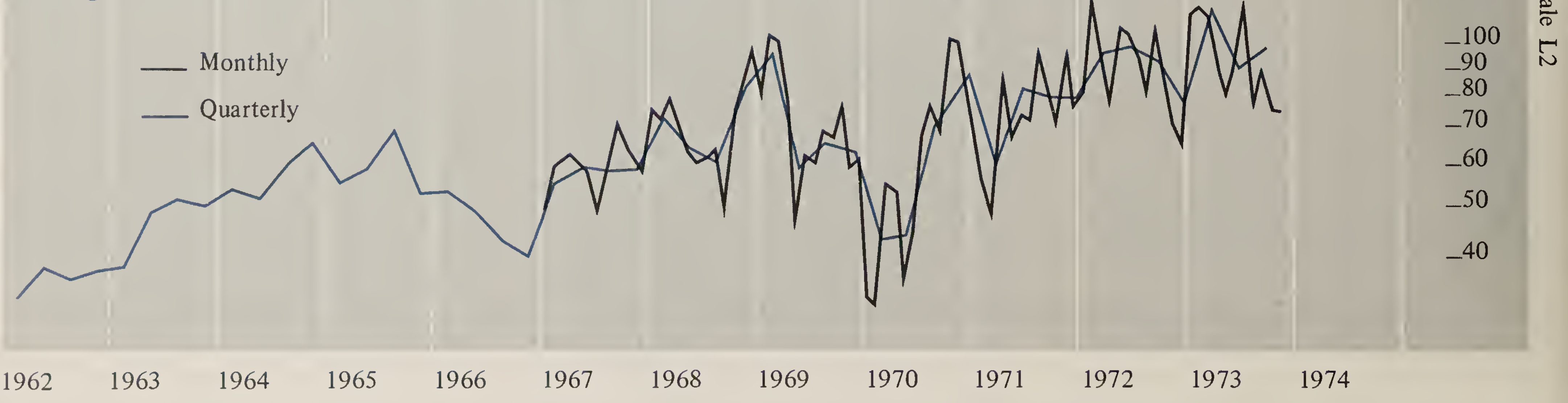
New Orders in Manufacturing Industries, Canada (Seasonally Adjusted)



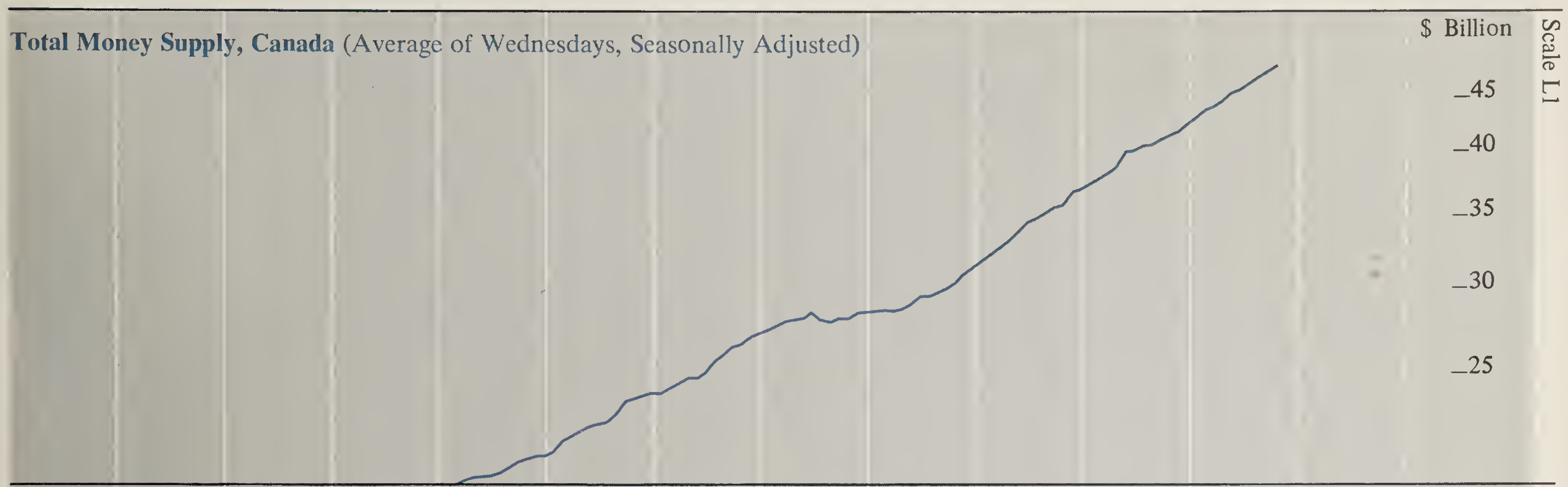
Building Permits Issued in Ontario, Non Residential Construction (Seasonally Adjusted)



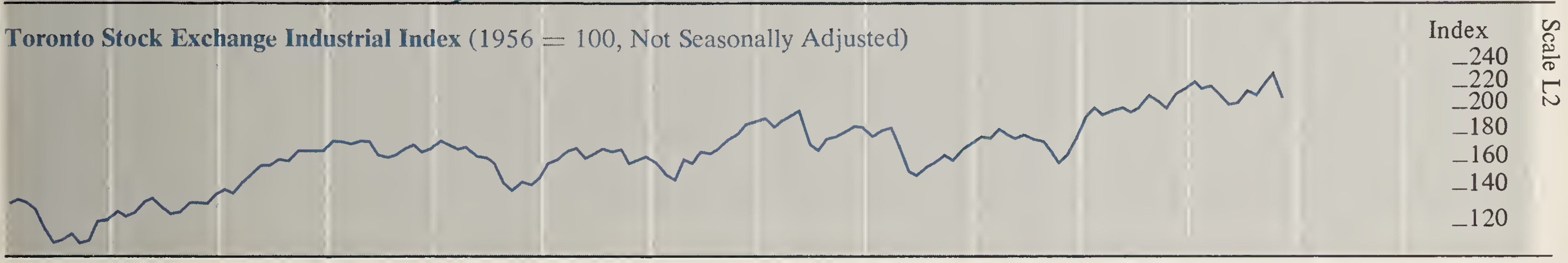
Housing Starts in Centres of 10,000 Population and over, Ontario (Seasonally Adjusted at Annual Rates)



Leading Indicators

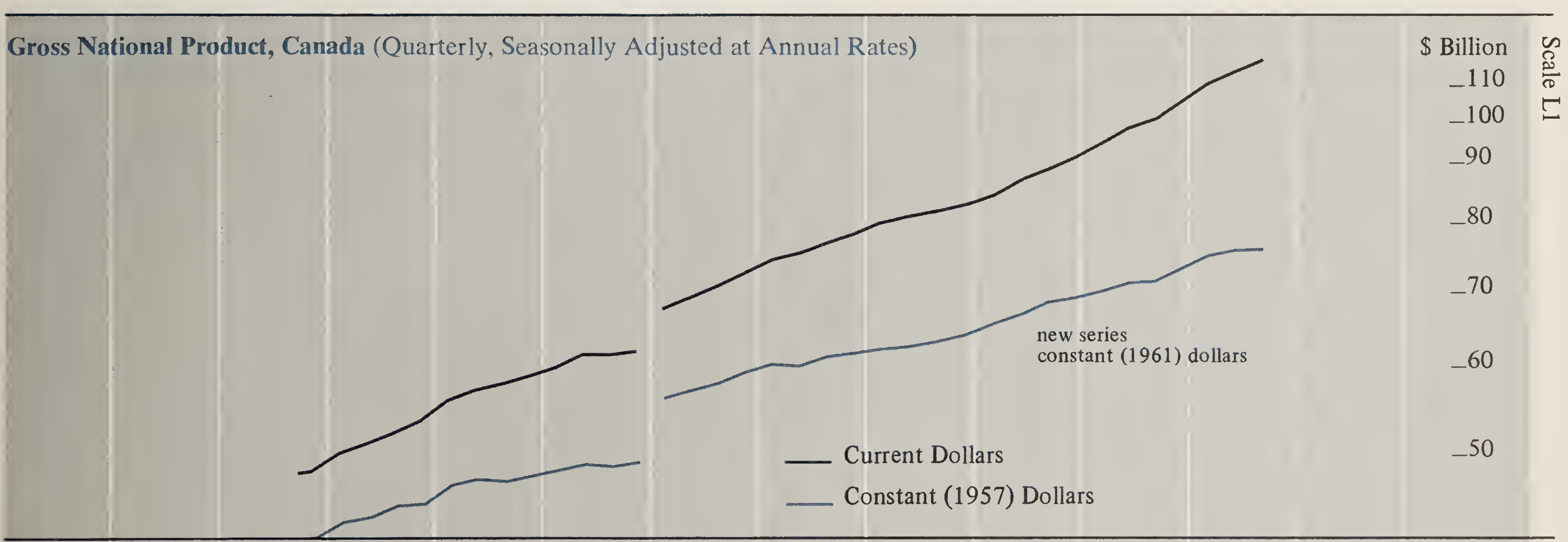


Total Money Supply, Canada (Average of Wednesdays, Seasonally Adjusted)

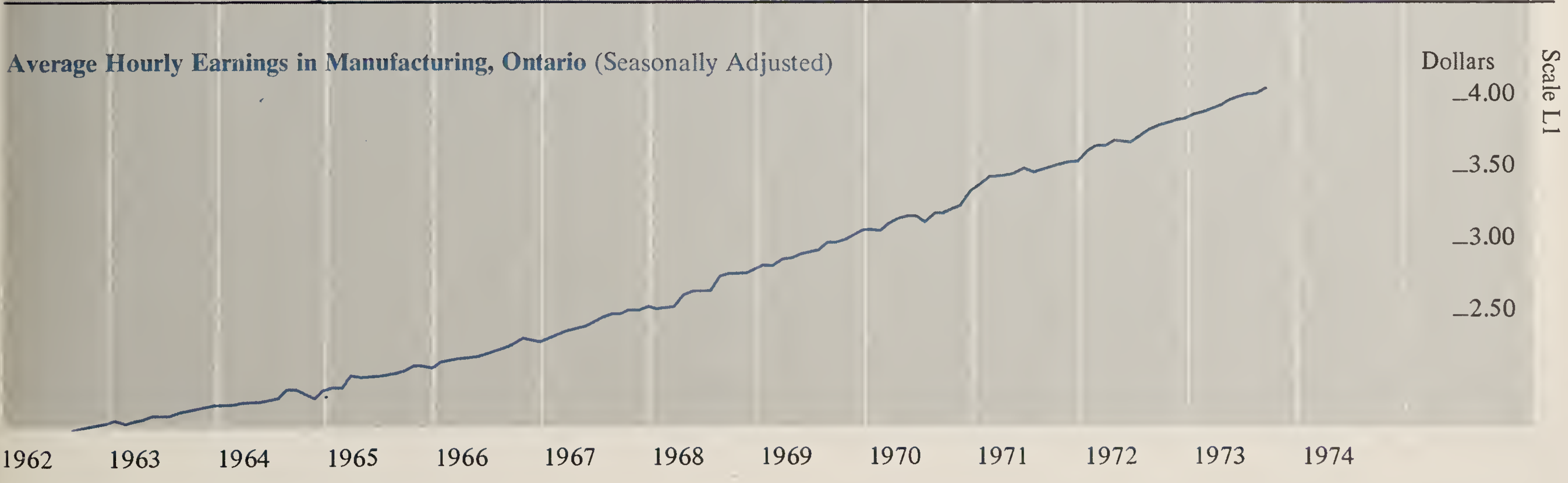


Toronto Stock Exchange Industrial Index (1956 = 100, Not Seasonally Adjusted)

Coincidental and Lagging Indicators



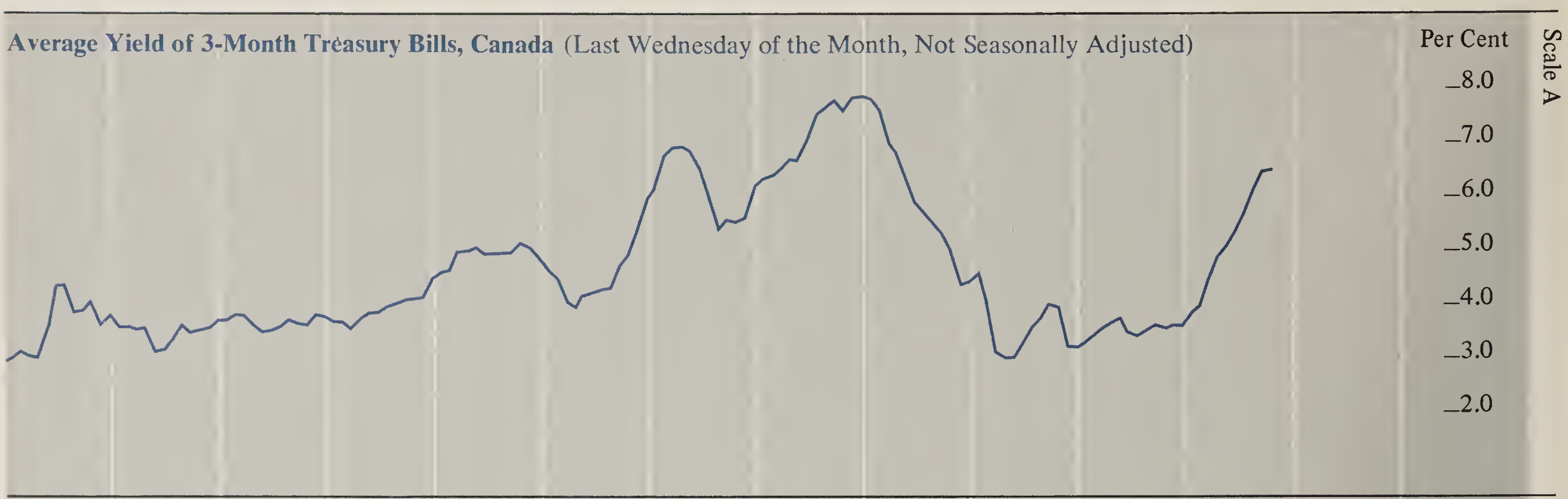
Gross National Product, Canada (Quarterly, Seasonally Adjusted at Annual Rates)



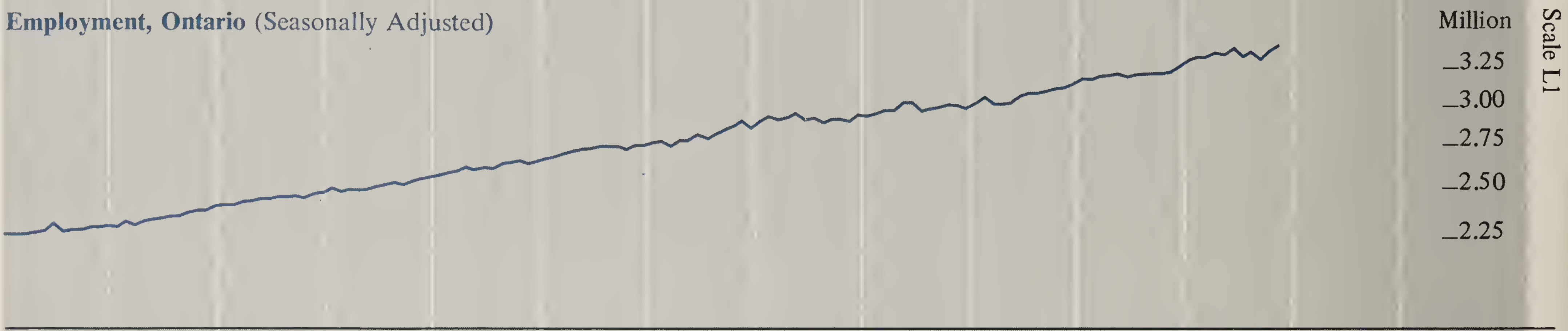
Average Hourly Earnings in Manufacturing, Ontario (Seasonally Adjusted)

Coincidental and Lagging Indicators

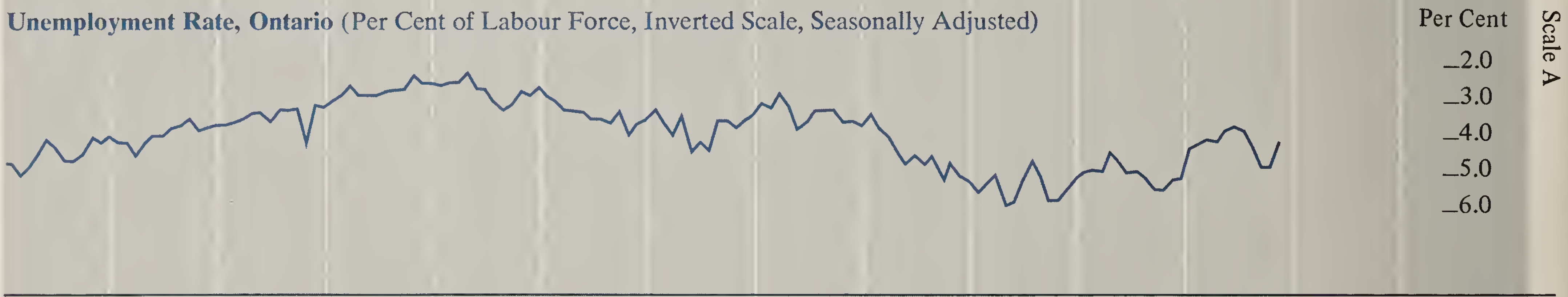
Average Yield of 3-Month Treasury Bills, Canada (Last Wednesday of the Month, Not Seasonally Adjusted)



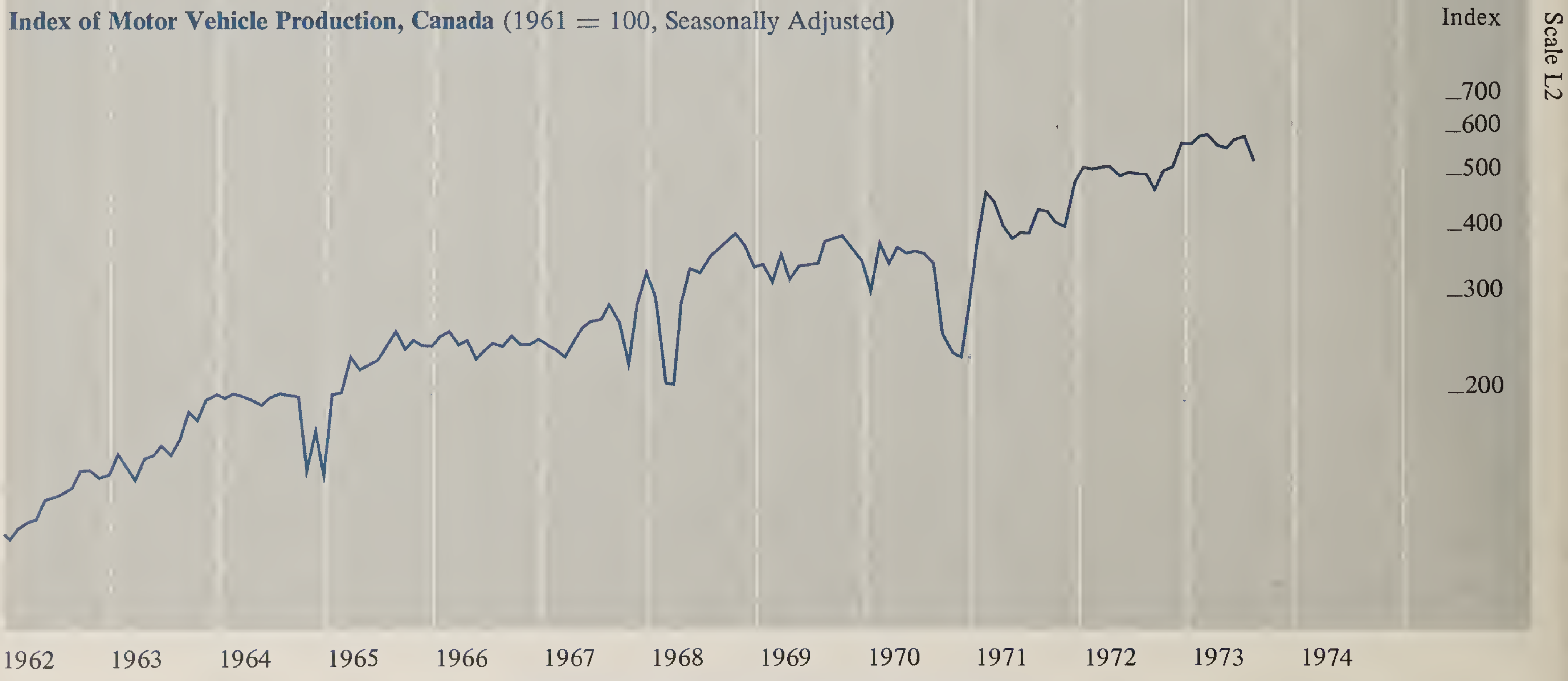
Employment, Ontario (Seasonally Adjusted)



Unemployment Rate, Ontario (Per Cent of Labour Force, Inverted Scale, Seasonally Adjusted)



Index of Motor Vehicle Production, Canada (1961 = 100, Seasonally Adjusted)



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Ontario economic review

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Economic Indicators

Seasonally Adjusted

		1972				1973									
		Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.
Leading Indicators															
Average Weekly Hours Worked in Manufacturing	Number	40.4	40.4	40.2	40.9	40.8	40.6	40.6	39.9	39.8	40.1	38.9	39.2	39.9	39.9
New Orders in Manufacturing Industries[c]	$ Million	4,813.4	4,844.6	4,924.7	5,019.4	5,308.7	5,379.2	5,450.8	5,381.3	5,526.2	5,441.6	5,688.5	5,470.3	5,747.5	5,938.1
Building Permits Issued in Ontario, Non-Residential Construction	$ Million	107.1	113.4	103.4	122.5	163.0	178.9	136.2	124.9	124.0	102.7	105.0	174.8	103.8	160.1
Urban Housing Starts (Annual Rate)	Number	108,500	91,600	71,800	66,500	116,000	118,200	114,600	91,500	82,300	93,100	123,900	76,900	91,500	77,600
Money Supply[c]	$ Million	41,515	42,028	42,287	42,837	43,554	44,165	44,511	45,038	45,840	46,195	46,799	47,359	47,838	48,537
T.S.E. Industrial Index[u]	1956 = 100	210.8	203.2	215.4	221.6	223.0	220.8	223.8	215.3	205.9	208.4	219.3	215.2	225.3	237.4
Business Failures[u]	Number	67	100	102	82	77	129	–	92	107	85	80	60	99	93
Business Failures – Liabilities[u]	$ Million	4.5	4.1	13.8	3.8	3.9	8.9	–	5.9	8.6	4.9	4.9	3.5	8.9	11.7
Coincidental and Lagging Indicators															
Gross National Product[c] (Annual Rate)	$ Million	104,068			107,804			113,096			116,296			119,080	
Average Hourly Earnings in Manufacturing	Dollars	3.82	3.84	3.86	3.86	3.91	3.92	3.96	3.97	4.01	4.04	4.08	4.03	4.13	4.18
3-Month Treasury Bill Rate[c,u]	Per Cent	3.62	3.57	3.68	3.65	3.90	3.99	4.46	4.90	5.18	5.48	5.74	6.18	6.50	6.53
Cheques Cashed in Clearing Centres[1]	$ Million	8,470	8,936	8,449	8,768	9,259	9,108	10,183	9.700	9,703	9,745	10,669	10,375	10,273	
Retail Trade	$ Million	1,098	1,128	1,115	1,107	1,152	1,196	1,185	1,274	1,161.4	1,185.1	1,232.6	1,222.2	1,233.2	
Labour Force	000's	3,408	3,408	3,416	3,441	3,460	3,491	3,473	3,504	3,485	3,532	3,471	3,515	3,493	3,555
Employed	000's	3,227	3,227	3,243	3,269	3,315	3,349	3,336	3,365	3,353	3,404	3,344	3,371	3,328	3,389
Unemployed	000's	181	181	173	172	145	142	137	139	132	128	127	144	165	166
Unemployed as % of Labour Force	Per Cent	5.3	5.3	5.1	5.0	4.2	4.1	3.9	4.0	3.8	3.6	3.7	4.1	4.7	4.7
Wages and Salaries	$ Million	1,948	1,971	1,993	2,016	2,044	2,067	2,088	2,105	2,111	2,125	2,126	2,139		
Index of Industrial Employment	1961 = 100	134.2	136.1	135.5	134.9	136.9	138.1	139.0	140.0	140.6	141.5	142.8	139.4	142.1	143.8
Index of Industrial Production[c]	1961 = 100	195.4	200.4	202.7	203.9	205.0	212.2	212.3	212.7	212.5	215.2	214.9	208.7	211.5	215.4
Total Manufacturing[c]		191.9	194.3	197.0	199.2	200.8	210.3	210.2	209.0	209.1	211.6	211.6	203.9	207.1	210.7
Non-Durables[c]		171.4	172.7	173.7	175.5	176.2	181.4	179.9	182.0	183.0	184.9	184.6	176.5	178.0	180.8
Durables[c]		217.9	221.5	226.5	229.2	231.9	246.7	248.5	243.2	242.0	245.6	245.8	238.7	243.9	248.5
Mining[c]		192.8	210.9	212.8	207.2	209.8	203.7	207.8	215.4	212.9	212.4	206.0	205.3	209.5	218.6
Electric Power and Gas Utilities[c]		229.2	236.4	236.5	239.0	233.9	242.6	238.1	240.9	241.2	250.6	256.9	254.4	252.6	251.3
Primary Energy Demand (Annual Rate)	BKWH	74.64	76.15	76.56	75.43	74.96	77.83	74.93	75.97	78.52	79.05	79.79	81.60	79.85	79.23
Exports (including re-exports)[c]	$ Million	1,603	1,842	1,890	1,834	1,918	1,968	2,001	2,047	2,073	2,047	2,108	1,898	1,985	2,144
Imports[c]	$ Million	1,554	1,655	1,662	1,686	1,759	1,871	1,898	1,750	1,933	1,877	1,949	1,915	1,928	2,102
Unclassified Indicators															
Foreign Exchange Reserves[c,u]	U.S. $ Million	5,370	5,372	5,191	5,189	5,116	5,203	5,128	5,061	5,013	5,011	4,939	4,743	4,690	4,848
Industrial Materials Price Index[c,u]	1935-39 = 100	303.2	317.4	319.4	324.4	336.7	347.5	353.7	353.2	359.5					
Consumer Price Index[c,u]	1961 = 100	141.8	142.0	142.3	143.3	144.5	145.3	145.7	147.3	148.4	149.7	151.0	153.0	153.9	154.3
Toronto[u]		136.6	136.2	136.6	137.7	139.4	139.7	140.1	141.3	142.5	143.6	144.6	146.2	146.8	147.0
Ottawa[u]		137.9	137.6	138.2	139.1	140.2	140.9	141.2	142.5	144.0	145.3	146.7	148.9	149.5	150.5
Thunder Bay[u]	1969 = 100	108.9	108.5	109.1	109.5	110.9	111.2	111.1	112.2	113.2	114.2	115.5	117.6	119.2	117.9
Purchasing Power of 1961 Consumer Dollar[c,u]		0.71	0.70	0.70	0.70	0.69	0.69	0.69	0.68	0.67	0.67	0.66	0.65	0.65	0.65

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[c] *Statistics for Canada.*

[u] *Not seasonally adjusted.*

[1] *Ontario less Toronto.*

Ontario